



**State of Tennessee
Department of Audit**

1999 Annual Report



**John G. Morgan
Comptroller of the Treasury**



Continuing a tradition of excellence . . .

Department of Audit

1999 Annual Report

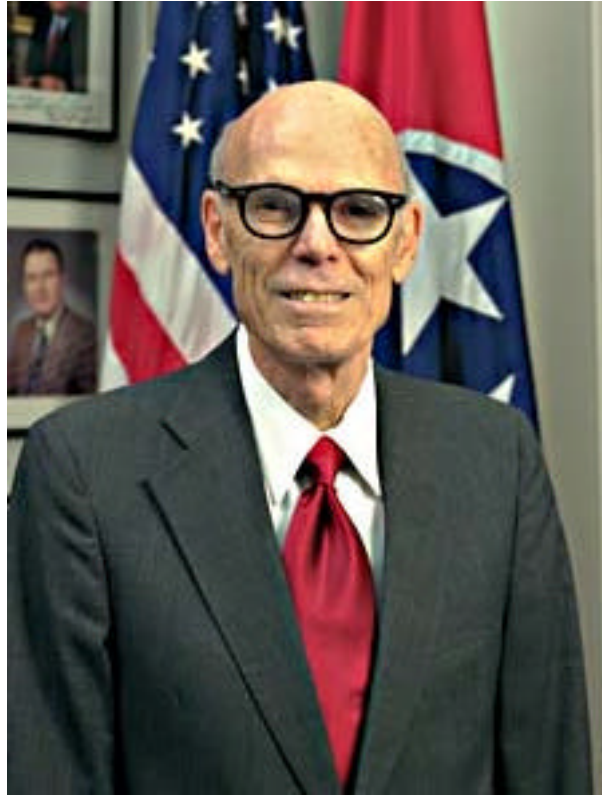
to the

Tennessee General Assembly



Comptroller of the Treasury, Authorization No. 307161. This public document was promulgated at a cost of \$3.00 per copy.

Dedication



**William R. Snodgrass
Comptroller Emeritus**

In 1999, Mr. Snodgrass decided not to seek another term as Comptroller of the Treasury. On January 13, 1999, by Joint Resolution of the 101st General Assembly, he was named Comptroller Emeritus for his unparalleled contribution to the government and citizens of Tennessee.

*We respectfully dedicate this 1999 Department of
Audit Annual Report to Mr. Snodgrass.
His knowledge, leadership, and integrity have built
a tradition of excellence in the Department of
Audit that will continue into the 21st century.*

December 31, 1999

The Honorable Don Sundquist, Governor
The Honorable John S. Wilder, Speaker of the Senate
The Honorable Jimmy Naifeh, Speaker of the
House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 1999 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304 of *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

John G. Morgan
Comptroller of the Treasury

JGM/ab

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Comptroller of the Treasury



John G. Morgan
Comptroller of the Treasury

In January 1999, John G. Morgan was elected Comptroller of the Treasury by the Tennessee General Assembly. Born on January 4, 1952, in Nashville, Tennessee, Mr. Morgan graduated from Austin Peay State University in 1974. He did graduate work at Louisiana State University from 1974 to 1976 and entered state government as a research assistant for the Legislative Fiscal Review Committee in 1976.

From 1978 to 1980, Mr. Morgan was a research assistant in the Department of Finance and Administration, and from 1980 to 1982, was an administrative assistant to the State Treasurer. In 1982, he began working in the Office of the Comptroller of the Treasury as Assistant Director of Bond Finance. He served as Director of Bond Finance from 1983 to 1987 and in 1987 also became Assistant to the Comptroller.

In October of 1987, Mr. Morgan left state government and became Vice President, Director of Public Finance, for Third National Bank in Nashville. In February of 1989, he returned to state government as Executive Assistant to the Comptroller of the Treasury. Mr. Morgan is a former board member of the Tennessee Municipal League Risk Management Pool, Tennessee Municipal Bond Fund, and Nashville Thermal Transfer Corporation. Currently he is chairman of the National State Auditors Association Performance Audit Committee. He is married to Donna Morgan, and they have two sons, Brian and Kevin.

Comptrollers of the Treasury

Daniel Graham	1836-1843
Felix K. Zollicoffer	1843-1849
B.H. Sheppard	1849-1851
Arthur R. Crozier	1851-1855
James C. Luttrell	1855-1857
James T. Dunlap	1857-1861
Joseph S. Foster	1861-1865
S.W. Hatchett	1865-1866
G.W. Blackburn	1866-1870
E.R. Pennebaker	1870-1873
W.W. Hobbs	January to May 1873
John C. Burch	May 1873-1875
James L. Gaines	1875-1881
James N. Nolan	1881-1883
P.P. Pickard	1883-1889
J.W. Allen	1889-1893
James A. Harris	1893-1899
Theo F. King	1899-1904
Frank Dibrell	1904-1913
George P. Woollen	1913-1915
John O. Thomason	1915-1923
Edgar J. Graham	1923-1931
Roy C. Wallace	1931-1937
John W. Britton	1937-1938
Marshall E. Priest	1938-1939
Robert W. Lowe	1939-1945
Jared Maddux	January to April 1945
Sam K. Carson	April 1945-1946
Jared Maddux	1946-1949
Cedric Hunt	1949-1953
Jeanne S. Bodfish	1953-1955
William R. Snodgrass	1955-1999
John G. Morgan	1999-

Department of Audit

John G. Morgan

Comptroller of the Treasury

Richard V. Norment, CIA, CGFM

Assistant to the Comptroller for County Audit

Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM, DABFE, DABFA

Director of State Audit

Dennis F. Dycus, CPA, CFE, CGFM

Director of Municipal Audit

State of Tennessee

Don Sundquist

Governor

John S. Wilder

Speaker of the Senate and Lieutenant Governor

Jimmy Naifeh

Speaker of the House of Representatives

Riley Darnell

Secretary of State

John G. Morgan

Comptroller of the Treasury

Steve Adams

State Treasurer

Paul G. Summers

Attorney General and Reporter

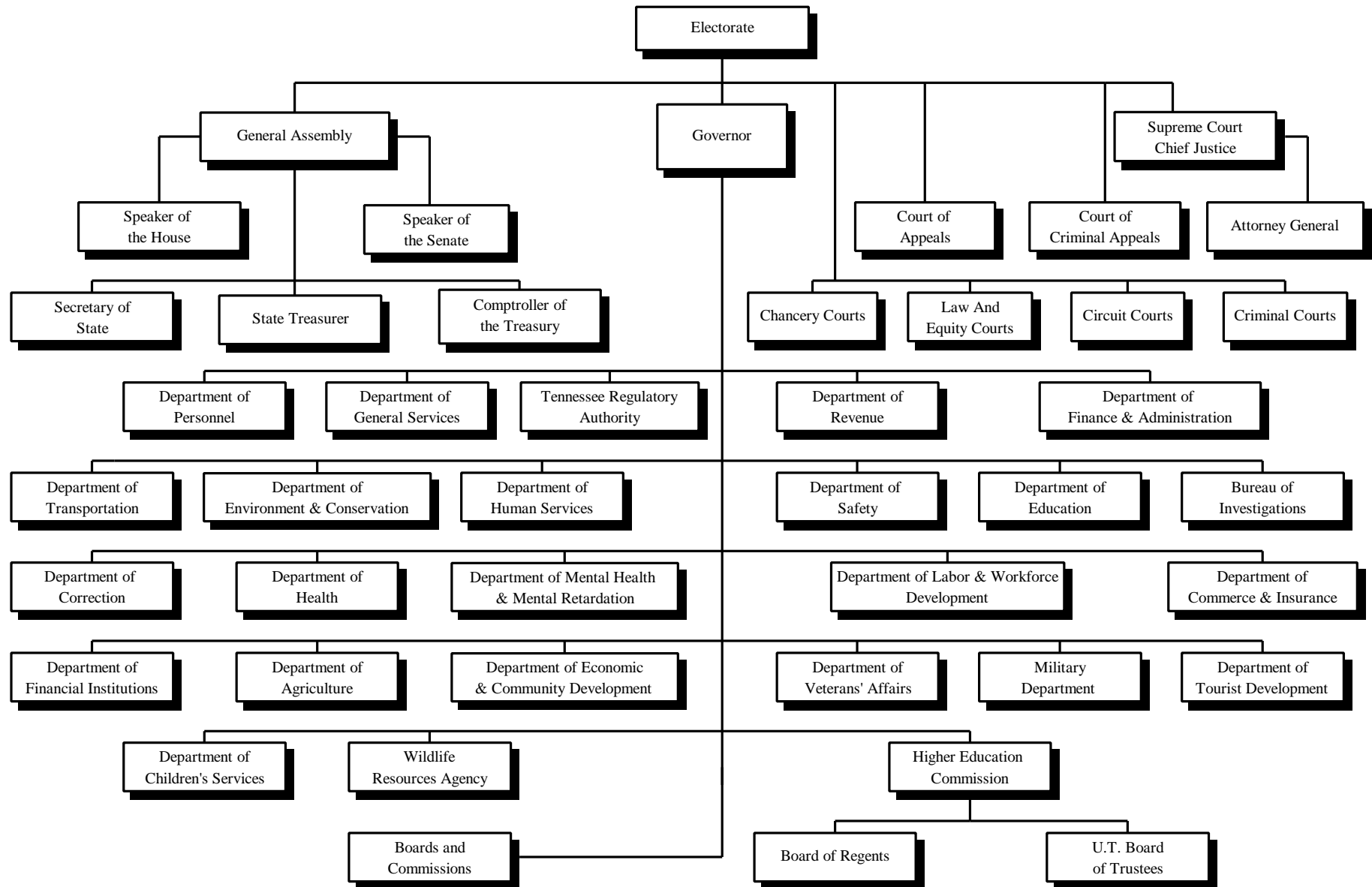
John Ferguson

Commissioner of Finance and Administration

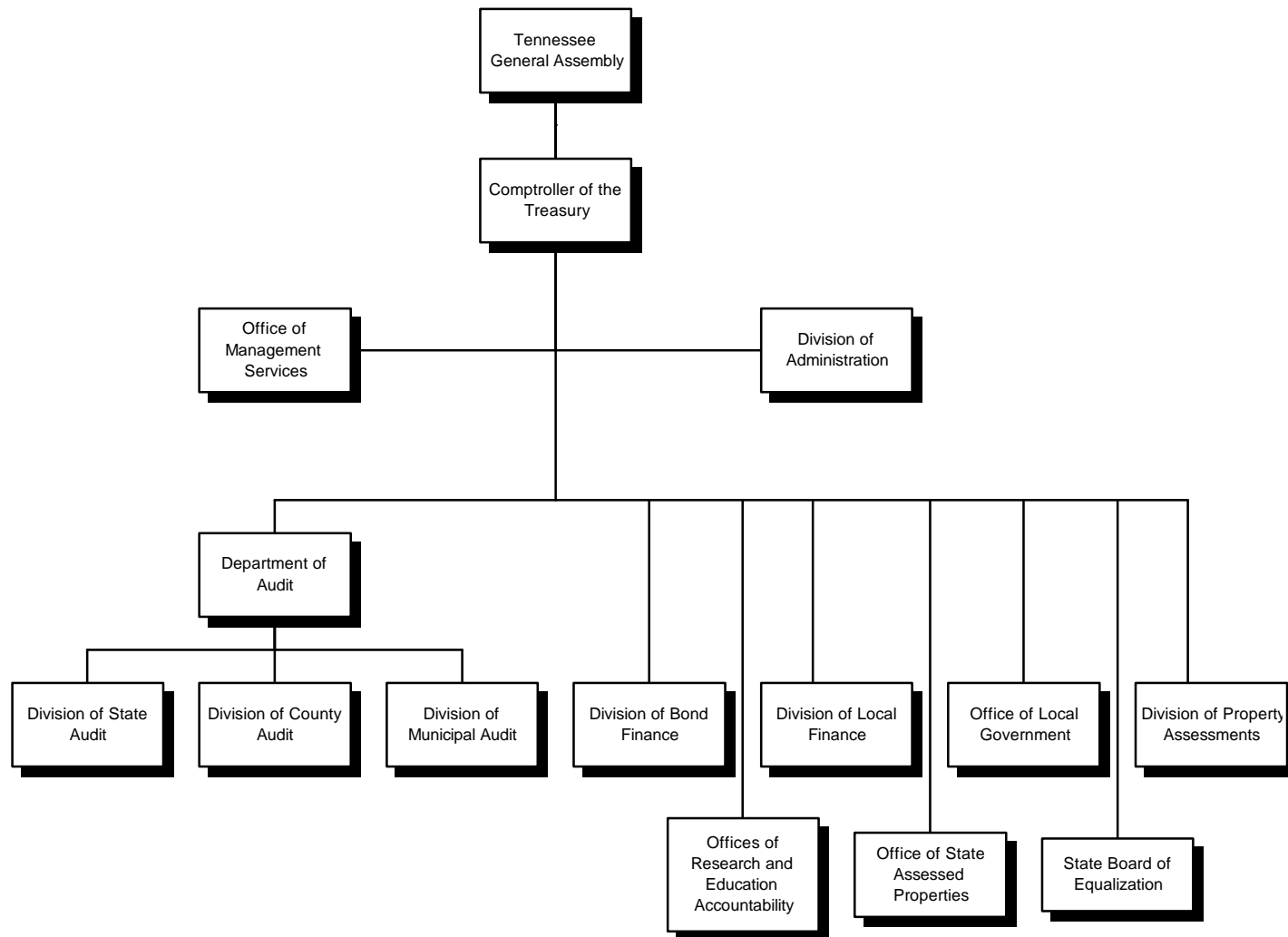
E. Riley Anderson

Chief Justice of the Supreme Court

State of Tennessee



Office of the Comptroller of the Treasury



Office of the Comptroller of the Treasury

The Comptroller of the Treasury is a constitutional officer elected by the General Assembly for a two-year term. State statutes prescribe the Comptroller's duties; among these duties are the audit of state and local governmental entities and participation in the general financial and administrative management of state government. The Department of Audit performs the audit function for the Comptroller. He also serves *ex officio* as a member of various committees, boards, and authorities.

Advisory Commission on Intergovernmental Relations
Baccalaureate Education System Trust
Board of Claims
Board of Equalization
Board of Standards
Building Commission
Child Care Facilities Corporation
Competitive Export Corporation
Consolidated Retirement System Board of Trustees
Council on Pensions and Insurance
Funding Board
Governor's Council on Health and Physical Fitness
Health Facilities Commission
Higher Education Commission
Housing Development Agency
Information Systems Council
Library and Archives Management Board
Local Development Authority
Local Education Insurance Committee
Local Government Insurance Committee
Public Records Commission
Publications Committee
School Bond Authority
Security for Public Deposit Task Force
Sports Festivals, Inc.
State Capitol Commission
State Insurance Committee
State Trust of Tennessee Board of Directors
Student Assistance Corporation
Tuition Guaranty Fund Board
Utility Management Review Board
Wastewater Financing Board

In addition to the Department of Audit, the Office of the Comptroller includes nine other divisions.

Division of Administration

The Division of Administration provides overall direction, coordination, and supervision to the various divisions within the Comptroller's Office.

The division also provides research on particular topics involving state finances and assists various committees and members of the General Assembly in their review of state finances, including review, analysis, and drafting of proposed legislation.

Office of Management Services

The Office of Management Services provides the various divisions of the Comptroller's Office financial, administrative, and technical support and services in the areas of accounting, budgeting, payroll and personnel, information systems, contracting matters, and printing. The office assists the Comptroller in fulfilling his responsibilities involving policies, plans, reports, special projects, and contract review and approval. The office also provides the Comptroller technical and analytical assistance in support of his responsibilities as a member of certain boards and commissions, such as the State Building Commission, Board of Standards, and Information Systems Council. The office assists in recruiting auditors and accountants for all audit divisions and is responsible for developing the Affirmative Action Plan. The office has lead responsibility for overseeing the continuous improvement projects for the Comptroller's Office.

Division of Bond Finance

The Division of Bond Finance is responsible for the issuance and repayment of debt by the State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority and for the issuance of debt by the Bond Finance Committee of the Tennessee Housing Development Agency.

The proceeds of these debt obligations are used to finance general state infrastructure; provide loans to local governments for water and sewer systems, resource recovery, public works projects, airports, and rural fire equipment; provide loans to certain nonprofit corporations for mental health, mental retardation, and alcohol and drug facilities; construct revenue-producing facilities at the state's public higher education facilities; and provide single-family mortgages at below market interest rates to low- and moderate-income persons.

The division, jointly with the Department of Environment and Conservation, administers the State Revolving Funds, which provide loans to local governments for sewer works and water works. The division, jointly with the Department of Transportation, administers the Utility Relocation Loan Program, which provides loans to local governments for relocation of utilities required by highway construction. The division administers the loan guarantee program of the small and minority business telecommunication business assistance program under the Department of Economic and Community Development.

Division of Local Finance

The Division of Local Finance has as its principal responsibility the task of providing assistance to local governments in Tennessee. Among these local governments are counties, municipalities, utility districts, special school districts, and emergency communications districts. The division's

responsibilities, as prescribed by state statutes, include the following:

- Approving certain debt obligations of local governments and approving the budgets of these local governments
- Approving and filing the official statutory bonds required by law for elected and appointed local government officials
- Approving certain investments of local governments in accordance with procedures established by the State Funding Board
- Receiving and filing information reports on debt obligations issued by local governments and reporting such information to the Tennessee General Assembly annually

In addition, the division assists in the preparation of legislation affecting local governments; prepares fiscal notes on legislation presented to the General Assembly concerning local governments; and prepares an annual report of the financial operations of counties and municipalities in Tennessee as reported in their audited financial statements on file in the audit divisions of the Office of the Comptroller. Local governments call on the division daily for assistance in each area of responsibility.

Office of Local Government

The Office of Local Government formulates policies and guidelines on issues relevant to local government and provides information and assistance to local government officials. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census in preparing the decennial census. The office also calculates the distribution schedule for the Tennessee Revenue Sharing Act.

Division of Property Assessments

The Division of Property Assessments assists local governments in the professional administration of property tax programs and provides data processing services for assessment and tax billing. In accordance with state statutes governing reappraisal, the division monitors county visual inspection and reappraisal programs, provides technical assistance to counties during reappraisal programs, and performs current value updating programs. In addition, the division performs biennial appraisal ratio studies, updates property ownership map originals, develops and conducts educational and training courses for assessment officials, and assists the State Board of Equalization in maintaining the Assessor Certification Program. The division also administers the Tax Relief Program.

State Board of Equalization

The State Board of Equalization is a quasi-judicial and policy-making body responsible for the review and equalization of property tax assessments; the promulgation of assessment guidelines, rules, and manuals; and the professional education and training of assessment officials. The board's duties further include hearing and acting on appeals relating to property tax assessments from the Office of State Assessed Properties

(public utilities) and the county boards of equalization, reviewing certified tax rates, and reviewing applications for various property tax exemptions.

**Offices of Research and
Education Accountability**

The Office of Education Accountability monitors the performance of Tennessee's elementary and secondary school systems and provides the General Assembly reports on a variety of education topics. The office assists the House and Senate education committees as requested and provides the legislature an independent means to evaluate the effects of increased expenditures in education. The office also serves as a general resource for the General Assembly on national education trends.

The Office of Research conducts research projects on state and local government issues at the request of the Comptroller and the General Assembly. The office also assists the State Funding Board in analyzing the annual economic forecast prepared by the Center for Business and Economic Research. The office assists the Comptroller with preparation of fiscal notes for the Fiscal Review committee, monitors legislation, and analyzes the budget. The Office of Research has also helped provide general staff support to a number of special legislative committees and commissions.

**Office of State Assessed
Properties**

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in *Tennessee Code Annotated*, Section 67-5-1301. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

Authority for Post-Audit

The General Assembly created the Department of Audit in 1937. Authority to audit state and county governmental entities is contained primarily in Section 4-3-304, *Tennessee Code Annotated*. The department is required to

perform currently a post-audit of all accounts and financial records of the state government . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .

make annually, and at such other times as the general assembly shall require, a complete report on the post audit . . .

certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the department of finance and administration, or by the state treasurer, before publication of such statements . . .

serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .

make annually an audit of all the records of the several counties of the state . . .

perform economy and efficiency audits, program results audits and program evaluations . . .

require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury and . . . be prepared in accordance with standards established by the comptroller . . .

require that all persons, corporations or other entities who receive grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .

Statutory authority to perform limited reviews of state governmental entities, usually called Sunset performance audits, is provided by Section 4-29-101 et seq., *Tennessee Code Annotated*.

All municipalities are required to have annual audits as provided in Section 6-56-105, *Tennessee Code Annotated*. Sections 7-82-401, 9-3-111, and 49-2-112 require that all utility districts, school activity and cafeteria funds, and various municipal enterprises that handle public funds be audited annually.

Audit Standards

Sections 4-3-304 and 6-56-105, *Tennessee Code Annotated*, give the Comptroller responsibility for ensuring that the audits of counties and municipalities are prepared in accordance with generally accepted government auditing standards and other minimum standards established by the Comptroller.

Audit Follow-up

Section 8-4-109, *Tennessee Code Annotated*, requires a follow-up of audits of state departments, agencies, and institutions. Audited entities are required to respond to audit findings and recommendations, within six months after the release of the audit report, concerning the effective and efficient management of accounts, books, records, or other evidence of financial transactions. If state entities fail to implement audit recommendations within a reasonable time or fail to provide other reports required by this statute, the Comptroller is required to notify the chairmen of the Senate and House Finance, Ways and Means Committees.

Department of Audit

The Department of Audit comprises three divisions—State Audit, County Audit, and Municipal Audit—and employs approximately 300 people. Each division is administered by a director. The three directors are responsible for coordinating the audit function within the department and for addressing concerns and issues in auditing.

The Department of Audit is a post-audit agency. As such, it audits an entity's financial statements; an entity's compliance with applicable statutes, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period.

The basic purpose of post-audits is to identify and report past errors and recommend future improvements. Pre-audits, in contrast to post-audits, are performed within an entity by its own employees to prevent errors, detect problems, and suggest improvements. The most important distinction between pre-audits and post-audits is that the latter is organizationally independent of the audited entity. In this respect, a post-audit agency in government is comparable to an independent public accounting firm in the private or business sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

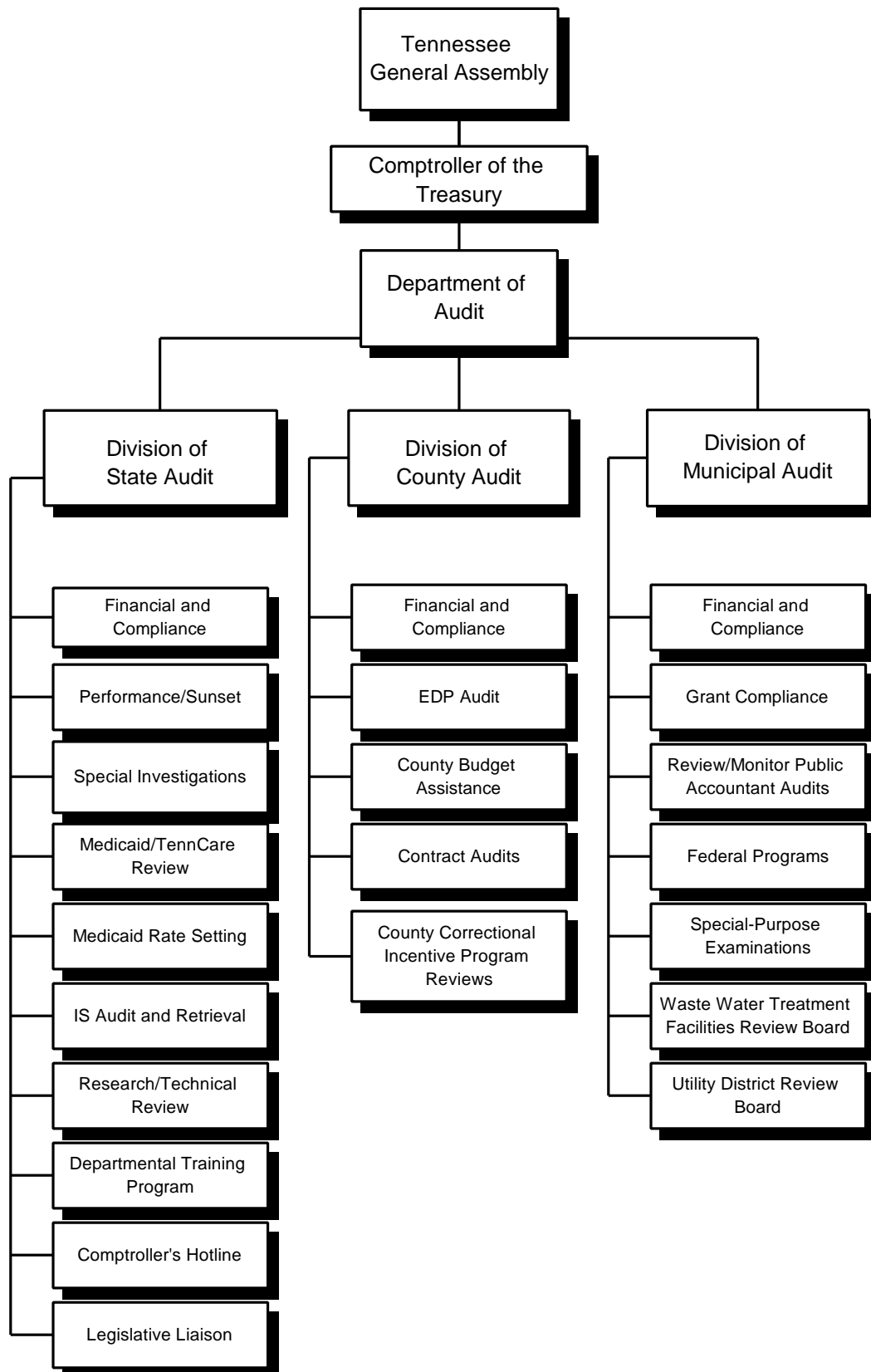
The department's professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, law, political science, criminal justice, education, and nursing. More than 40 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 1999, 118 employees of the department had received one or more professional certifications. The appendix identifies those employees who passed a certification exam during the year ended June 30, 1999, and also includes a list of all employees holding professional certifications. Many members of the staff have experience with major accounting firms, businesses, and government agencies; several have taught at universities. This range of experience gives a broad perspective to the department's audit work.

Members of the staff also participate in the following professional organizations:

- American Institute of Certified Public Accountants
- American Society for Public Administration
- Association of Government Accountants
- Information Systems Audit and Control Association
- Government Finance Officers Association
- Institute of Internal Auditors
- Association of Certified Fraud Examiners
- National Association of College and University Business Officers
- National Association of School Business Officials
- Tennessee Association of School Business Officials
- Tennessee Society of Certified Public Accountants

Participation includes attending and contributing to annual meetings, serving as officers, and sitting on committees and project task forces.

Department of Audit



Improving the Audit Process

The Comptroller of the Treasury and the Department of Audit strive to preserve the integrity and improve the quality and usefulness of the audits of governmental entities and grant recipients at all levels. To accomplish this goal, the department works closely with state and national organizations and professional associations concerned with governmental accounting, auditing, and financial reporting.

Richard V. Norment, Assistant to the Comptroller for County Audit, is a member of the Association of Government Accountants' National Finance and Budget Committee and the Governance Task Force. Mr. Norment is a member of the Government Finance Officers Association's (GFOA's) Special Review Committee for the Certificate of Achievement for Excellence in Financial Reporting program. He was also a member of the GFOA 1999 Local Conference Committee and chair of the Fundraising Committee. In addition, Mr. Norment is president-elect of the Tennessee Government Finance Officers Association.

Arthur A. Hayes, Jr., Director, Division of State Audit, is chair of the National State Auditors Association's Audit Standards and Reporting Committee. He is a member of the Program Committee of the South-eastern Intergovernmental Audit Forum and a member of the Governmental Committee of the Tennessee Society of CPAs. His term as a member of the Executive Board of the Government Finance Officers Association of the United States and Canada (GFOA) ended May 1999, and he was also an *ex officio* member of the GFOA Committee on Accounting, Auditing, and Financial Reporting. He has authored numerous articles for auditing and accounting professional publications.

Dennis F. Dycus, Director, Division of Municipal Audit, is a faculty instructor for the Association of Certified Fraud Examiners and serves as a director of the Middle Tennessee Chapter.

Other staff serve on committees of the following national organizations:

- Association of Government Accountants
 - Awards Committee—Charles Bridges, Division of State Audit
 - Membership Committee, Chair—Debra Bloomingburg, Division of State Audit
 - National Executive Committee—Barbara White, Division of State Audit
 - Regional Vice President-Elect—Deborah Loveless, Division of State Audit
- National State Auditors Association
 - Quality Control Review Committee—Deborah Loveless, Division of State Audit
 - Single Audit Committee—Erica Smith, Division of State Audit
 - Training Committee—Dan Willis, Division of State Audit

Audit Standards and Reporting Committee—Erica Smith

- Government Finance Officers Association
Committee on Accounting, Auditing, and Financial Reporting—
Barbara White, Division of State Audit
Special Review Committee—Barbara White
1999 Local Conference Treasurer—Jerry Burgess, Division of
County Audit
1999 Local Conference Committee—Barbara White

Accounting and Financial Reporting Standards

The Governmental Accounting Standards Board (GASB) has been the authoritative accounting and financial reporting standard-setting body for state and local governmental entities since June 1984. The Division of State Audit's technical analyst attends the board's meetings as an observer and writes and distributes a report to members of the National Association of State Auditors, Comptrollers, and Treasurers (NASACT).

Like its commercial-sector counterpart, the Financial Accounting Standards Board (FASB), the GASB operates under the auspices of the Financial Accounting Foundation (FAF) and is located in Norwalk, Connecticut. As of June 30, the GASB had issued 34 authoritative standards, two concepts statements, five interpretations, and eight technical bulletins, as well as several exposure documents from which standards are developed.

GASB has completed a multi-year project to revise governmental financial reporting. The Comptroller was integrally involved through each phase of this most comprehensive project. The final standard was issued in June 1999.

Generally Accepted Government Auditing Standards

The Department of Audit performs its audits in accordance with generally accepted government auditing standards as set forth by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book). These standards apply to financial and performance audits. The Yellow Book incorporates the generally accepted auditing standards for field work and reporting and attestation standards set forth by the American Institute of Certified Public Accountants (AICPA).

The Department of Audit conducts its single audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments and Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Quality Control Review

The department internally monitors the quality of audit work through its Quality Control Review Committee, composed of senior staff from each of the department's three divisions. The quality control review consists of three phases:

- Review of policies and procedures

- Review of compliance with professional standards and departmental policies and procedures
- Review of compliance with *Working Paper Techniques*

The Quality Control Committee conducts a review of the department's policies and procedures biennially. An Audit Review Subcommittee is appointed biennially to review audits to determine whether the department has complied with professional standards and departmental policies and procedures. This Audit Review Subcommittee consists of audit managers and senior auditors who serve on a rotating basis. This review is similar to the external quality control review program used by National State Auditors Association. Quarterly, the Quality Control Committee appoints a Working Paper Review Subcommittee. This committee consists of senior auditors who serve on the committee on a rotating basis to review the department's compliance with *Working Paper Techniques*. The results of the committee's reviews are communicated to all managerial personnel in the department.

In addition to the Quality Control Review Committee, each division has an established process whereby each audit is reviewed prior to release for adherence to the standards.

The department also undergoes an external review of its quality control system. Section 8-4-102, *Tennessee Code Annotated*, states:

Previous to the convening of each biennial general assembly, the speaker of the senate and the speaker of the house jointly may contract for the services of an independent public accounting firm to audit or review the operations of the office of the comptroller, or may call upon the director of the division of state audit to review with them a current audit of the comptroller of the treasury. The speakers may appoint a committee of the general assembly for the purpose of such review.

The Speakers directed the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in August 1998 by certified public accountants and other professionals holding executive-level posts in federal and state governments. The purpose of the review was to ensure that the department is meeting its responsibility to perform audit work in accordance with generally accepted government auditing standards.

The report of the quality assessment review for the year ended June 30, 1998, rendered an unqualified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the Department of Audit's system of quality control for audits issued from July 1, 1997, through June 30, 1998, was operating effectively and

provided reasonable assurance of compliance with generally accepted government auditing standards.” (See Appendix for opinion report.)

The quality control assessment team made recommendations concerning the documentation of substantive tests, the relation between audit work and auditor conclusions, and the evaluation of evidential matter.

Training

The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and *Government Auditing Standards*. Auditors participate in the department’s in-house training program as course developers, presenters, and participants. Volunteer instructors from throughout the department present some 26 courses in the department’s in-house program. These courses range from “Auditing for Fraud” to “Planning, Monitoring, and Supervising an Audit” to “Audit Command Language.”

The department’s commitment to training extends to auditors and accountants throughout state government. Therefore, many of the in-house classes are open to other agencies, and one or more seminars open to state accounting and auditing personnel are held each year.

All training is offered with the assistance of the Department of Audit Advisory Committee on Training, whose members represent all divisions and sections of the department. The 12 members are volunteers who work to improve the training program by surveying the staff’s training needs, suggesting new classes, recommending ways to improve existing classes, and upgrading program administration. The training coordinator chairs the committee.

For the eighteenth year, the Department of Audit and the National Association of State Auditors, Comptrollers, and Treasurers cosponsored the annual Governmental Auditor Training Seminars for public accounting firms performing governmental audits in Tennessee. The seminars were held in Cleveland, Jackson, Morristown, and Nashville.

Local Representation in Professional Organizations

The Department of Audit fully supports its staff’s active participation in local professional organizations recognizing that these organizations contribute to the staff’s continued growth.

The department plays a significant role in the activities of the Nashville chapter of the Association of Government Accountants (AGA). Scarlet Sneed, Division of State Audit, is secretary; and Greg Worley, Division of County Audit, is treasurer. Members of the chapter’s executive committee include Liz Birchett, Erica Smith, and Dan Willis from the Division of State Audit. In addition to holding top offices, department staff are well represented in the Nashville chapter’s organization, serving on almost every committee.

Bob McCloud, Division of State Audit, is a director of the Middle Tennessee Chapter of the Association of Certified Fraud Examiners.

Division of State Audit



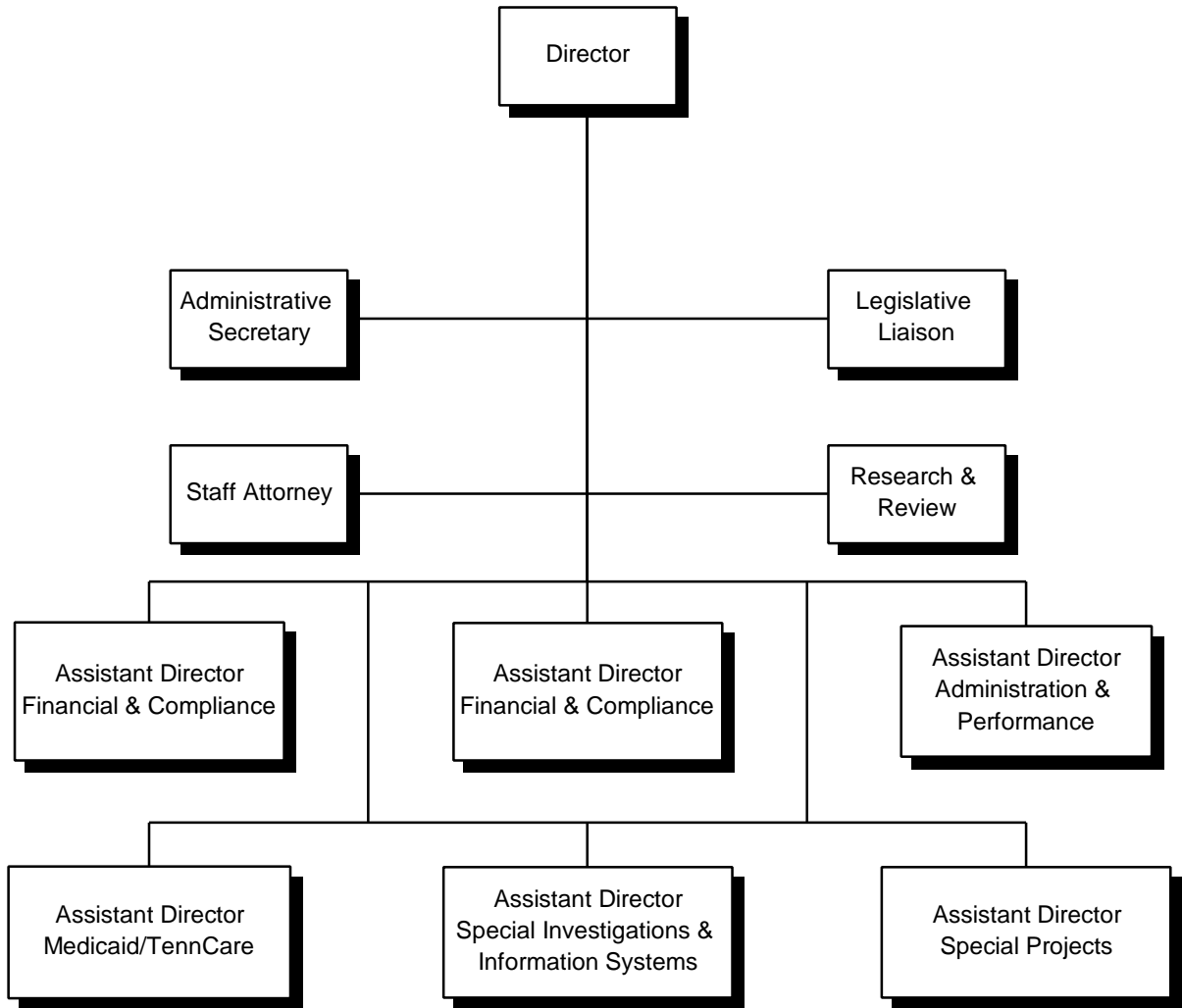
Arthur A. Hayes, Jr., CPA, JD, MBA, CFE, CGFM
Director

The Division of State Audit conducts financial and compliance audits, performance audits, and investigations. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's many agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 93 reports during the year ended June 30, 1999; an additional 117 audits were in progress at June 30, 1999.

This division includes five sections: financial and compliance, Medicaid/TennCare, performance, special investigations, and information systems. Highlights of the work each section performed from July 1, 1998, through June 30, 1999, are presented in this chapter.

In addition to auditing, the division reviews and comments on exposure drafts from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

Division of State Audit



Financial and Compliance



Charles K. Bridges, CPA, CGFM
Assistant Director



Edward Burr, CPA, CGFM
Assistant Director

This section conducts financial and compliance audits of all state departments, agencies, and institutions. In addition, the group performs annual audits of those human resource agencies in the state not audited by independent public accountants.

A major endeavor of the financial and compliance section was the *Single Audit of the State of Tennessee* for the year ended June 30, 1998. This audit covered the operations of the state as a whole and was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. A significant part of this project was the audit of the *Tennessee Comprehensive Annual Financial Report*, which covers all the state's funds and account groups, including college and university funds.

In addition to the single audit report, separate audit reports were issued on the Department of the Treasury, the Office of the Comptroller of the Treasury, departments administering major federal programs, and units of the government not subject to the control of the centralized accounting system: state universities, community services agencies, the Tennessee State School Bond Authority, the Tennessee Local Development Authority, the Tennessee State Veterans' Homes Board, and the Tennessee Housing Development Agency. The smaller departments and agencies of the government and the community colleges, technical institutes, and state technology centers are reviewed annually as part of the audit of the state's comprehensive annual financial report and are audited in depth on a biennial cycle.

The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and Office of Management and Budget Circular A-133. They do, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

All financial and compliance audits are conducted in accordance with generally accepted government auditing standards. The section performs the following general procedures as part of the financial and compliance audit process:

- Reviews the working papers from previous audits and applicable regulations, rules, policies, procedures, laws, and legal opinions.
- Considers the internal control at the entity, including a review of information systems, and determines the nature, timing, and extent of tests to be performed.
- Reviews the original budget and subsequent budget revisions and compares them to actual revenues and expenditures.
- Obtains and analyzes explanations for significant variances.
- Reviews the internal control in the computerized accounting and management information systems.
- Tests to determine the appropriateness of expenditures and the entity's accountability for revenues and cash receipts.
- Tests to substantiate assets, liabilities, and fund balances.
- Reviews federal and state grants to determine the entity's accountability for grant funds and compliance with applicable laws, rules, and regulations.
- Reviews management's representations regarding financial transactions, supporting accounting data, and other disclosure items.
- Evaluates all evidence obtained during the audit process in order to formulate an opinion on the financial transactions and to prepare findings on significant problems.

Results of Audits

During the year ended June 30, 1999, the division published 73 financial and compliance audit reports. On June 30, another 77 audits were in progress. The following are summaries of some of the published audit reports.*

*Findings repeated from prior audits are marked with an asterisk.

Single Audit of the State of Tennessee

The Single Audit of the State of Tennessee for the year ended June 30, 1998, was conducted in accordance with Office of Management and Budget Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133, each department, agency, and institution that expended federal awards or had federal financial activity during the year was required to prepare a schedule of expenditures of federal awards.

As required by A-133, the following occurrences must be presented:

- Deficiencies in internal control in relation to a type of compliance requirement for a major federal program.
- Material noncompliance with major program provisions in relation to a type of compliance requirement.
- Known or likely questioned costs greater than \$10,000 for a type of compliance requirement for a major program.
- Known questioned costs greater than \$10,000 for a nonmajor federal program.

The consideration of the internal control over the State of Tennessee disclosed certain significant deficiencies in the design or operation of the internal control over financial reporting. All such deficiencies were presented. In addition, the consideration of the internal control over compliance with requirements that could have a direct and material effect on an individual major federal program administered by the State of Tennessee disclosed significant deficiencies in the design or operation of the internal control over compliance with a major program's requirements.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs, costs of \$17,338,462.17 were questioned for the year ended June 30, 1998.

State Departments and Agencies

Alcoholic Beverage Commission

For the Years Ended June 30, 1997, and June 30, 1996

Weak Controls Over Cash Receipts*

Cash-receipting duties were not adequately segregated, prenumbered licenses are not accounted for, and licenses are not periodically reconciled with revenue.

Dealers' Tax Status Not Always Determined*

The commission did not always determine whether liquor dealers owed taxes before renewing their licenses.

Inadequate Inventory Controls*

Perpetual inventory records were not maintained for confiscated inventory items, and there was no evidence of independent annual physical inventory counts for confiscated inventory items.

**Tennessee Arts
Commission**

For the Years Ended June 30,
1997, and June 30, 1996

Inadequate Controls Over Museum Equipment*

Two equipment items could not be located. Furthermore, equipment items did not have state tags affixed, and serial numbers on items did not agree with the numbers recorded in the Property of the State of Tennessee (POST) system. One item was listed as retired in POST, although the item was still in use.

Equipment at the National Civil Rights Museum Not in POST

The Tennessee State Museum has oversight responsibility for the equipment at the National Civil Rights Museum but has not added the equipment to POST.

Inadequate Controls Over Museum's Artifact Inventory*

The museum lacks written policies and procedures for critical areas in the inventory process. Furthermore, values at the time of acquisition were not reported in the museum's computerized inventory system. Artifact appraisals were not reviewed by a supervisor to ensure reasonableness. Descriptions entered into the system were not adequate.

Internal Controls Over Donation Box Collections Inadequate*

The commission could not account for \$540.51 in missing donation box collections. Furthermore, the policies and procedures governing the collection process were not followed.

The Commission's Policies and Procedures for Subrecipient Monitoring Inadequate*

The commission's policies and procedures for subrecipient monitoring do not ensure that the subrecipients deemed most risky will have on-site monitoring. Furthermore, the policies were not being followed during the audit period.

Federal Funds Not Drawn Down Timely*

The commission did not draw down federal funds timely as required by the Department of Finance and Administration's Policy 20. The commission draws down federal funds quarterly, not weekly, as the policy requires.

**Department of Children's
Services**

For the Year Ended June 30, 1998

The Department of Children's Services' Management Has Been Ineffective and Has Failed to Correct the Many Serious Problems Noted in Prior Audits*

The prior audit report on the Department of Children's Services stated that the overall accounting controls and procedures of the department needed significant improvement, and that the Commissioner should determine if the leadership of the Fiscal and Information Systems Division is capable of correcting the many significant problems noted in the department's fiscal operations. However, the department's organizational structure and the assignment of authority and responsibility in the Fiscal and Information Systems Division remain unchanged and continue to be ineffective. Management of the department has not made any significant improvements in its

accounting controls or procedures. In addition, some of the new findings noted in this report indicate that management may have had a lack of regard for compliance with federal regulations. The findings listed below illustrate the extent of the problem.

Federal Guidelines Were Not Understood or Disregarded When Equipment Was Purchased With Title IV-E Funds, Which Resulted in \$11,977,359 in Questioned Costs

During the years 1996 through 1998, the department did not comply with federal regulations when purchasing equipment to develop a Statewide Automated Child Welfare Information System (SACWIS) under Title IV-E Foster Care. Because of the many noted instances of noncompliance with the Title IV-E SACWIS regulations, it appears that management either does not have a clear understanding of the regulations, or has chosen to disregard them. The seriousness of this weakness in internal controls was reported as a material weakness in the 1998 Tennessee Single Audit Report. Because of the material noncompliance by the department with the SACWIS regulations, the report on compliance for Title IV-E Foster Care will be qualified, and a total of \$11,977,359 was included in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report.

Purchasing Procedures Circumvented and No Internal Controls in Place During the Purchasing and Installation of Federally Funded Equipment

State purchasing procedures were circumvented when the department purchased \$11,013,744.31 of equipment with federal funds. In addition, the department had no internal controls in place during the purchasing and installation of the equipment. Review of purchase orders and corresponding invoices shows that equipment was ordered and/or received before purchase orders were generated or approved.

No Reasonable System Exists to Determine Medical Treatment Costs Associated With Providing Services to Children in State Care

The department does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs. The seriousness of TennCare's failure to ensure that these billings complied with all federal laws, regulations, and guidelines was reported as a Department of Health material internal control weakness in the 1998 Tennessee Single Audit report.

Journal Vouchers Not Processed Timely*

The department prepares journal vouchers to record expenditure and revenue transactions between the department and other state agencies.

However, the department does not always process these journal vouchers promptly. The department did not bill TennCare for services rendered by Children's Services, totaling \$22,982,172.06, from July 1, 1997, through March 31, 1998, until August 20, 1998, as much as twelve months after the initial expenditure was incurred. Because TennCare bills the federal government for approximately 50% (federal share) of these expenditures, the state lost approximately \$419,000 in interest on these funds.

Fraud Not Reported to the Comptroller of the Treasury Immediately, as Required by Law

The department did not report an instance of employee fraud to the Comptroller of the Treasury as required by state law.

Disciplinary Issues Not Resolved in a Timely Manner, Resulting in Federal Funds Being Misused

The department did not resolve disciplinary issues in a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or dismiss the employee.

Children's Services Inappropriately Requested and Received Reimbursement From TennCare for Children in Children's Services Locked Facilities*

As noted in the prior audit, Children's Services requested and received reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities.

Subrecipient Monitoring System Inadequate

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department's subrecipients. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists.

No Formal Procedures for Identifying and Collecting Overpayments—Outstanding Overpayments of at Least \$1,225,133.76 Made to Foster Parents and Adoption Assistance Parents and Vendors*

Children's Services still has uncollected overpayments due from foster care parents and adoption assistance parents, as well as indeterminable vendor overpayments. As of June 1998, the department's records

indicated an outstanding accounts receivable balance for these parents totaling \$1,225,133.76, a decrease of only \$49,307.36 (3.9%) since August 1997. The department attempted to write off \$287,254.32 of uncollectible foster care payments. However, this request was denied because of the department's failure to follow proper procedures.

Duplicate Payments of Approximately \$185,000 Made to Vendors*

The department issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling \$101,700 and returned 305 original checks totaling \$83,300.

Major Medical Vendor Invoices Not Approved Before Payment Was Made, Resulting in a Voluntary Refund of \$281,145.47 From a Major Medical Vendor*

Children's Services did not adequately review the four major medical vendors' invoices for appropriateness, and these payments were not appropriately authorized by a state official. The only signature on an invoice was generally that of the physician, counselor, or nurse providing the service. In addition, the department received refund payments totaling \$281,145.47 from one of its major medical vendors. However, the department has not reimbursed TennCare for the portion of the refunded amount it paid.

Status Changes for Foster Children Still Not Processed Promptly*

Caseworkers did not update the Children's Plan Financial Information System (ChipFins) in a timely manner when changes in placement status for foster children occurred, resulting in overpayments.

Controls Over Disbursements Still Weak*

The department did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation and insufficient approval.

Location of Children and Child-Specific Case and Eligibility Files Not Provided Timely

The department could not determine the location of children and their specific case and eligibility files within a reasonable amount of time. The request for 75 case files for children receiving Title IV-E funds was made on August 3, 1998. It was six weeks later before all locations were provided; eight of the 75 locations provided (10.66%) were incorrect.

Deferred Revenue Not Transferred Timely*

Some items were not promptly researched and transferred from the deferred revenue account. Twenty-four of 63 items tested were not transferred to the appropriate accounts until 140 to 547 days following receipt. In addition, some items were incorrectly deposited into deferred revenue. These items included child support payments and checks to other departments.

Signature Authorization Forms Were Not Properly Approved

Not all signature authorization forms for the Department of Children's Services on file at the Division of Accounts were approved by the commissioner. Specifically, at the youth development centers employees other than the commissioner approved the signature authorization forms, thereby approving themselves and others to sign as the commissioner.

Improper Employer-Employee Relationships Created

The Department of Children's Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. These contracts appear to create "employer-employee" relationships between the department and these individuals.

The Department Did Not Uphold Its Fiduciary Duty to Properly Administer and Account for the Trust Fund Accounts of Children Receiving Federal Benefits

The department did not maintain proper control over or accounting for the trust fund accounts for children in state custody. There are no formal written procedures governing trust fund accounting. The department did not refund money to the Social Security Administration in a timely manner. Four of ten trust fund accounts tested for the audit period had errors noted in them. Eleven of 60 trust fund transactions tested were not properly accounted for in the child's trust account.

Accounting for the Social Security Administration Trust Funds Not Done Monthly for Each Child*

The SSI payments received and the expenses paid by the state for the child are not recorded monthly in each child's trust fund account. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care. In one example, the state used \$2,645.66 of state funds to pay for current expenses of the child's care when SSI funds could have been used.

Computer Programming Controls Not Adequate*

Current programs used by the department allow a single user to modify the program, manipulate files, enter data, and prepare reports. Management concurred with each of the prior audits and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

TnKids System Not Implemented and Data Integrity and User Accountability Not Ensured With Client Operation and Review System*

The new TnKids computer system has not been implemented and the CORS system currently in place still does not ensure data integrity and user accountability. In addition, eight of 65 master index summaries in CORS indicated incorrect placement history, and three of 61 children could not be located in CORS.

Children's Services' Disaster Contingency Planning Needs Improvement*

Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions should its office and related work areas be damaged or destroyed.

Appropriate Grants Not Charged at the Time the Initial Transaction Is Recorded*

The department pays expenditures with state dollars and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds.

Tennessee Commission on Children and Youth

For the Years Ended June 30, 1997, and June 30, 1996

Documentation of the Evaluation of Internal Control Not Maintained

The Tennessee Commission on Children and Youth has not maintained any documentation of its annual evaluation of internal accounting and administrative controls, as required by the Financial Integrity Act of 1983. In addition, the commission filed its Financial Integrity Act report late for 1997. The report due December 31, 1997, was dated February 26, 1998, and was received by the Comptroller's office on the same date.

Department of Commerce and Insurance

For the Years Ended June 30, 1997, and June 30, 1996

Need to Improve Electrical Inspection Procedures*

Inspectors are allowed to collect permit fees and to issue inspection reports. However, the inventory listing of permits and inspection reports issued were not regularly reconciled with permit fees received and with inspection fees paid to inspectors. Inspector's reports were not evaluated timely.

Issuing Agent Misappropriated Funds

An issuing agent misappropriated more than \$27,000. This theft was possible because the department's controls over permit fee collections and permit issue agents' subsequent collection of those fees were inadequate.

Inadequate Monitoring of Cemetery Companies*

When cemeteries either pay late or do not pay registration fees, incorrect penalties are assessed. Additionally, the Burial Services Board did not assess the correct penalties for cemeteries that did not submit the required reports or meet trust requirements.

Inadequate Refunding Policies and Procedures and Records of Pending Matters

The Agent Licensing section did not refund retaliatory fees when overpayments were made. Also, the division did not maintain adequate records of certification documents and/or fees received that were placed in pending.

Tennessee Corrections Institute

For the Years Ended June 30, 1998, and June 30, 1997

Local Correctional Facilities Not Inspected on Time

Tennessee Code Annotated, Section 41-4-140, requires annual inspections of local correctional facilities. Not all facilities were inspected annually and not all required reinspections were conducted within 60 days.

Tennessee District Attorneys General Conference

For the Years Ended June 30, 1997, and June 30, 1996

Inadequate Controls Over Property and Equipment and Leased Office Space*

The Conference did not have adequate controls over or accountability for property and equipment and leased office space. Many equipment items were not properly tagged, were not properly recorded on the Property of the State of Tennessee listing, and could not be located. During the audit period, equipment valued at \$32,773.71 was reported lost or stolen to the Comptroller of the Treasury. The Conference office does not have adequate procedures concerning office space the district attorneys general lease and does not maintain copies of all leases. In some cases, the Conference office and the district attorneys general have not entered into formal lease agreements for the office space currently leased.

District Attorneys General's Offices Not Maintaining Adequate Leave Records*

The Conference office did not have sufficient documentation to support payments to employees of 11 of the 31 district attorneys general (35%) for annual, sick, compensatory, and terminal leave and could not adequately report liabilities at fiscal year-end because not all districts maintained adequate leave records.

ISSUES FOR LEGISLATIVE CONSIDERATION

Numerous Funding Sources of the District Attorneys General

The various sources providing funding to the district attorneys general increase the risk that the same expense item could be submitted for reimbursement to more than one funding source, whether intentionally or as a result of errors. The officials responsible for approving payments at the state and the county level do not have a mechanism to determine what expenses have also been paid by another funding source. The General Assembly should determine if the various funding sources should continue to be maintained by various governments, with no mechanism to verify that only one source has submitted a claim for reimbursement, or whether the Conference should be fiscal officer for all the district attorneys general's sources of funds.

Salary Supplements for District Attorney General Employees and County Funding of District Offices

Currently, the payment of salary supplements to district attorneys general and their staff is handled differently by the counties providing the supplements. Some counties pay the supplement directly to the employee through the county payroll, while others pay the supplement to the Conference office which pays the supplement to the employee through the state payroll system. The General Assembly should determine if it was its legislative intent for Fraud and Economic Crime funds and county appropriations to be used to supplement the salaries of individuals employed by certain district attorneys general's offices. If the salary supplements are considered appropriate, the General Assembly should then consider requiring all salary supplements for the district attorneys general and their staff to be remitted to the state and then paid through the state payroll system.

In addition, some counties subsidize the funding of the district attorneys general's offices by providing county employees to work in the district attorneys general's office, travel expenses of county and state employees, office space, etc. The General Assembly should consider requiring any county funding of the district attorneys general's offices, except for office space provided in county-owned facilities, to be remitted to the state and then paid through the state system.

Department of Education

For the Year Ended June 30, 1998

Failure to Obtain Fully Executed Contracts

Fully executed contracts were not obtained before contract services were provided. If contracts are not fully executed before services are provided, the state could be obligated to pay for unauthorized services.

Signature Authorization Forms Not Properly Completed

The commissioner did not sign the signature authorization forms submitted to the Department of Finance and Administration, Division of Accounts.

Department of Employment Security

For the Year Ended June 30, 1998

The Department Did Not Comply With Cash Management Objectives

The department did not minimize the amount of time between drawing and disbursing federal funds. Although the department complied with the method of drawing and receiving funds specified in the state's cash management agreement, it did not disburse timely all of the funds received. As a result, the department had accumulated unspent federal funds of \$5,614,690.50 at June 30, 1998.

Department of Environment and Conservation

For the Years Ended June 30, 1997, and June 30, 1996

Employee Not Performing Duties Associated With His Position

The department hired an individual as a hospitality manager for Paris Landing State Park; however, the employee was performing duties at the executive residence.

Collection Efforts for Delinquent Accounts Not Adequately Monitored

Collection efforts for accounts receivable at the state parks were not adequately monitored to ensure the department's collection policies and procedures are followed.

Weak Controls Over Cash Receipts*

At Harrison Bay, David Crockett, Fall Creek Falls, and Warrior's Path State Parks, duties were not properly segregated, cash was not adequately safeguarded, profit-and-loss statements were not prepared, and sales tests, sales projections, and inventory turnover tests for retail operations were not performed.

Inadequate Gasoline Inventory Procedures*

The department's procedures for recording, safeguarding, and reporting gasoline inventories at the state parks were not adequate.

Weak Controls Over the Cash-Receipting Process*

In some of the Environmental Divisions, cash-receipting duties were not always segregated and periodic reconciliations were not always performed by someone independent of the cash-receipting process.

Financial Responsibility Rules Not Enforced

The Division of Underground Storage Tanks did not enforce its rules requiring tank owners or operators who do not participate in the Underground Storage Tank Fund to demonstrate financial responsibility.

Inadequate Controls Over Underground Storage Tank Fund Expenditures

Neither inspections of clean-up sites nor field audits of contractors' invoices were routinely performed to ensure that contractors were not abusing the reimbursement system.

Procedures for Delinquent Accounts Not Followed*

The Division of Water Pollution Control did not always follow the department's procedures for billing and collecting delinquent accounts.

SPECIAL INVESTIGATION**Controls Over Golf Pro Shop Inadequate**

The T. O. Fuller State Park golf pro shop lacked controls over rain checks, voided cash register transactions, and reconciliations of cash register tapes with funds deposited. Cashiers were unsupervised at closing. Management was unable to determine if all sales were properly recorded.

**Department of Finance
and Administration**

For the Year Ended June 30, 1998

**The Tennessee Insurance System and the State of Tennessee
Accounting and Reporting System Do Not Reconcile***

Daily activity recorded in the Tennessee Insurance System (TIS) did not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor could it be reconciled.

Duties of Employees Performing Statewide Payroll Functions Are Not Adequately Segregated

Duties of employees performing statewide payroll functions in the Division of Accounts are not adequately segregated. One employee is responsible for normal payroll processing, error corrections, security administration, and has access to the actual payroll checks.

Signature Authorization Procedures Are Not Adequate

The Division of Accounts has not maintained complete and accurate signature authorization forms for each state department. The Division has not ensured that signature authorization forms are received and updated by the departments when necessary and at the beginning of each fiscal year. In addition, the Division has accepted improperly completed forms from the departments.

Access to the State Employee Information System Has Not Been Regularly Reviewed

The Division of Accounts statewide payroll section has not regularly reviewed access to the State Employee Information System (SEIS). Because security access has not been periodically reviewed, many unused SEIS User IDs were noted.

The Division of Accounts' Internal Post-Audit Review Process Needs Improvement

The Division has no written policies or procedures over the Post-Audit process that state how often they plan to perform periodic reviews. There were sixteen departments in Post-Audit status as of July 1998. However, only one had a Post-Audit report issued during the 1998 fiscal year and two other departments had reports in progress at that time. Although recent sample testwork had been performed on the other thirteen departments, no reports were in progress or had been issued.

All STARS Program Changes Were Not Properly Approved

Two of 10 State of Tennessee Accounting and Reporting System (STARS) program changes made (20%) did not have proper management authorization or approval.

Department Employees' Access to the State's Computer Systems Was Not Adequately Controlled

The department did not promptly cancel terminated employees' access to the state's computer accounting systems or the state's mainframe computer. Persons who were no longer employees of the department still had access to STARS, the State Employee Information System (SEIS), and the Property of the State of Tennessee (POST).

Office for Information Resources Procedures for Billing for Dedicated Equipment Are Inadequate

OIR has not been reviewing the cost versus recovery information for the dedicated equipment billings which has allowed agencies to be billed in excess of costs for dedicated equipment. Of the 134 dedicated

equipment cost centers reviewed, 34 (25%) had billings that resulted in over- or underbillings.

Inventory Tagging and Billing Procedures in the Office for Information Resources Were Not Adequate

Office for Information Resources' (OIR) equipment was surplusd during the fiscal year but not promptly taken off the inventory records.

The Office of Internal Audit Does Not Adequately Monitor the Various Divisions Within the Department

The Office of Internal Audit has not fulfilled its responsibility to continually test the department's internal controls, perhaps partly due to a lack of personnel. During the past fiscal year, internal audit issued 43 memoranda. However, only one memorandum involved testing performed on the department's internal controls.

The Division of Resource Development and Support's Policies and Procedures Over Monitoring Agreements Needs Improvement

RDS did not comply with the state's contracting procedures. Monitoring agreements were not approved before the start of the agreement. All subcontractors were not monitored. A monitoring agreement did not cover all of the procedures that should be followed.

The Department Has Not Complied With Important Aspects of the State's Grants Accounting Policy

Grant awards were not entered into the grant control module timely. Drawdowns were not made timely. Status reports to the Federal government contained erroneous information. Indirect costs were not recovered.

The Department Has Not Complied With Executive Orders 9 and 10*

The Department of Finance and Administration has not fully complied with two executive orders concerning the state's developmental centers.

Recordkeeping and Security for Equipment Are Inadequate

Clover Bottom Developmental Center (CBDC) does not have adequate controls over equipment, does not maintain accurate property records, and has failed to comply with several State of Tennessee and CBDC policies and procedures regarding property and equipment.

Internal Controls Over Inventory Were Inadequate

Clover Bottom Developmental Center did not properly segregate the duties of ordering, receiving, and updating supply inventory records.

Fiscal Controls at Clover Bottom and Arlington Developmental Centers Were Inadequate

Clover Bottom Developmental Center did not properly segregate the duties of cash receipting, depositing of cash receipts, and posting to the ledger accounts. Arlington had persons with access to the State of Tennessee Accounting and Reporting System (STARS) who were no

longer employees and persons with access to the State Employee Information System (SEIS) who had duties which did not require this access.

Department of General Services

For the Years Ended June 30, 1997, and June 30, 1996

Vehicles in the Motor Vehicle Management Fleet Are Not Properly Maintained*

Maintenance was not always performed on state vehicles within the mileage or time guidelines set forth in the department's policies and procedures manual.

The Office of Internal Audit Has Not Complied with Established Policies*

The Office of Internal Audit has not reviewed all principal programs within the past six years and has not audited any cost-reimbursement type contracts within the past year because of a shortage of personnel.

The State's Main Security Guard Contract Was Not Monitored

Guards were not registered or licensed at the time they served as guards.

Administration of POST Needs Improvement*

Problems were found with retirement batches; security administration; documentation and authorization for retired, surplus, and transferred assets; and asset values and object codes.

Documentation to Support Access to TOPS Was Not on File

Proper authorization for departmental users' access to TOPS was not on file at the Department of General Services.

Established State Procedures Have Been Circumvented

The department knowingly participated in a plan with another department to place an employee in a position that circumvented established state procedures.

Past Finding Not Acted Upon by Management

Prior audits of the Department of General Services have contained a finding concerning noncompliance with state laws relating to the coordination and administration of state personal property. The Department of Transportation (DOT) uses its own property management system. Department of General Services management indicated that they have tried to work with DOT to incorporate its property into the statewide system but that DOT has been uncooperative.

Department of Health

For the Year Ended June 30, 1998

Department of Health and Department of Mental Health and Mental Retardation Merged in the Absence of Legislative Authority

In absence of legislative authority, the Department of Health and the Department of Mental Health and Mental Retardation have effectively merged departmental functions.

TennCare Eligibility Verification Procedures Not Adequate*

For the past four years TennCare has failed to implement effective eligibility verification procedures. This finding was reported as a

repeated material internal control weakness in the 1998 Tennessee Single Audit Report.

TennCare-Related Activities at the Department of Children's Services Not Monitored*

TennCare has not monitored TennCare-related activities at the Department of Children's Services to ensure the accuracy and allowability of billings from that department despite its numerous, serious compliance and internal control problems. TennCare paid approximately \$101 million in reimbursement claims to the Department of Children's Services. This finding was reported as a material internal control weakness in the 1998 Tennessee Single Audit Report for the second year.

TennCare Management Information System Lacks Necessary Flexibility and Internal Controls

Management of the Bureau of TennCare had failed to address critical information system internal control issues. As evidenced by the number of new and repeat findings, management of the department had not made internal control a priority.

Controls Over Access to the TennCare Management Information System Were Weak and Inadequately Documented

The Director of Information Services is responsible for but had not implemented adequate TennCare Management Information System (TCMIS) access controls. Existing controls were not adequately documented. These weaknesses were reported as a material internal control weakness in the 1998 Tennessee Single Audit Report.

TennCare's Accounts Receivable System Was an Impediment to Collection of Cost Settlements and Federal Financial Reporting*

Incorrect information in the Medicaid Accounts Receivable Recoupment System was used to prepare federal expenditure reports and caused delays in collecting provider cost settlements.

Certain Providers Not Paid in Accordance With Departmental Rules*

TennCare sometimes paid more for Medicare deductibles than departmental rules allow.

Processing of "Professional Cross-Over" Claims Still Needs Improvement*

The TennCare Management Information System was not modified to detect third-party resources on Medicare professional cross-over claims and bureau staff did not routinely perform manual tests to ensure these claims were paid correctly.

Over \$6 Million Paid on Behalf of Deceased Enrollees

TennCare failed to identify approximately 14,000 deceased enrollees and paid over \$6 million in capitation payments on their behalf.

Federal Funds Used to Pay Health Care Costs of Incarcerated Youth*

TennCare made payments totaling at least \$571,880.03 for juveniles in the youth development centers. Under federal regulations, the state, not the federal government, is responsible for the health care costs of juvenile and adult inmates.

TennCare Management Information System Not Updated Timely to Process Department of Mental Health and Mental Retardation Claims

TennCare management failed to process the system change request to update the procedure codes and the payment rates in the TennCare Management Information System. This caused the Department of Mental Health and Mental Retardation to use state funds to reimburse providers.

The Director of Information Services Did Not Provide Information for the Audit Timely

The Director did not always provide the auditors with requested TennCare Management Information System information timely nor demonstrate a full understanding of and concern for the objectives of the audit.

ADP Risk Analysis and System Security Review Program Not Established*

TennCare did not have a coordinated program for ADP (automated data processing) risk analysis and security system review of the TennCare Management Information System, as required by the federal grantor.

Approximately \$55,000 in Federal Matching Funds Lost

Because TennCare failed to identify incarcerated youth, TennCare lost approximately \$55,000 in federal matching funds for payments made to behavioral health organizations.

Millions in State Funds Remitted to Federal Government Because of Uncollected Provider Cost Settlements*

Because TennCare failed to collect Medicaid cost settlements from providers, state funds (\$11.8 million as of November 1998) were used to pay the federal portion of the cost settlements. The federal grantor requires states to remit the federal share (approximately two-thirds) within 60 days of settlement, whether or not the state has collected the amounts due from the providers.

Cross-over Provider and Nursing Home Application Information Not Adequately Verified and the Department of Children's Services Not Monitored to Ensure Eligibility of its TennCare Providers*

For a majority of the fiscal year TennCare failed to establish procedures for the verification of provider information upon enrollment or procedures for updating provider files. TennCare also had not monitored to ensure the service providers used by the Department of Children's Services were eligible to participate in TennCare (Medicaid).

Eligibility of Supplemental Security Income (SSI) Recipients Not Monitored

Because TennCare did not effectively monitor the eligibility of SSI recipients, TennCare made improper payments on behalf of an SSI recipient who had become ineligible for TennCare.

Inappropriate Type of Agreement Used for Medical Education Payments*

Instead of abiding by the Rules of the Department of Finance and Administration and establishing multi-year grant contracts for graduate medical education payments, TennCare entered into five-year memoranda of understanding with the four medical schools in the state. TennCare did not obtain signed approval from the Comptroller of the Treasury for the agreements.

Graduate Medical Schools Not Monitored by TennCare

TennCare had not monitored the graduate medical schools to ensure that requirements related to graduate medical education payments (approximately \$48 million in fiscal year 1998) were met, nor had TennCare advised the graduate medical schools of the audit requirements of subrecipients.

Policies and Procedures for Accounts Receivable and Accrued Liabilities Need Improvement

TennCare's policies and procedures for accounts receivable and accrued liabilities were not adequate. Because of these inadequacies, numerous deficiencies in TennCare's accounts receivable and accrued liabilities records were noted.

Revision of TennCare's Rules Needed*

Several departmental rules governing TennCare were inconsistent with TennCare's practices or did not address certain practices.

Inappropriate Reimbursement to Department of Children's Services for Employees on Administrative Leave With Pay

TennCare inappropriately reimbursed the Department of Children's Services for two caseworkers' salaries while they were on administrative leave with pay for nine months resulting from disciplinary actions.

Allowable Rates for TennCare Mental Health Services Improperly Raised*

As a condition of the TennCare waiver, the state was allowed to continue paying for mental health services on a fee-for-service basis at the rates in existence prior to TennCare. During fiscal year 1995, however, the allowable amount for mental health services was raised for inflation. TennCare had not provided written approval from the Health Care Financing Administration for this action.

Late Return of Medicaid Refunds to the Federal Government Since Fiscal Year 1994*

Recoveries from third parties were not used to promptly reduce federal participation.

Weak Controls Over TennCare Manual Checks Since 1994*

Weaknesses in manual check procedures pertaining to poor segregation of duties and the reconciliation of issued checks and paid checks were noted. Manual checks totaled approximately \$315 million in fiscal year 1998.

Subgrantees Not Adequately Monitored*

As noted in the six prior audits, the department's subgrantees were not adequately monitored. Subgrantee audit reports were not received timely, and audit exceptions, including questioned costs, noted in the reports were not followed up or resolved timely.

Inadequate Revenue Controls*

Department personnel at various locations did not restrictively endorse checks immediately upon receipt; prepare receipts or listings of cash received; adequately segregate duties; or reconcile related records, receipts, and reports.

Improper Employer-Employee Relationships*

For the past decade, the department has established improper employer-employee relationships through contracts with community services agencies, human resource agencies, and other nonprofit organizations.

Inadequate Contract Controls

The department failed to approve contracts before the beginning of the contract period.

PAST FINDINGS NOT ACTED UPON BY MANAGEMENT**Draw Down and Use of Indirect Cost Funds**

The Department of Health had not fully used the departmental indirect cost allocation plan for the recovery of indirect costs from block grants. Management used eligible indirect costs for program expenditures and spent a large portion of previously recovered indirect costs for program services.

Administrative Controls for the Nursing Home Resident's Grant Assistance Program

The Department of Health had not established adequate administrative controls over the Nursing Home Resident's Grant Assistance Program to ensure participant eligibility and contractor performance, nor had the department set per diem limits.

Supplemental Pay

The Department of Health, without authorization, allowed certain employees to receive supplemental pay from the counties employing them. Section 68-2-603, *Tennessee Code Annotated*, states that county

health directors and county health officers “shall have compensation paid, all or in part, by the department of health.” However, there is no provision in the law granting authority for supplemental pay to employees other than county health directors and county health officials.

Tennessee Human Rights Commission

For the Years Ended June 30, 1997, and June 30, 1996

Need to Improve Controls Over Disbursements

The commission did not follow state purchasing procedures. Payments were not always timely and the receipt of goods was not always documented.

Late Reports and Inadequate Support for Financial Integrity Act Reviews

The commission did not submit on time the 1996 and 1995 reports of its review of internal accounting and administrative controls and did not maintain adequate supporting documentation for the review.

Department of Human Services

For the Year Ended June 30, 1998

Noncompliance With Child Support Enforcement Procedures*

Not all resources were used to locate absent parents. Furthermore, certain cases examined had no evidence that a review was made within a 36-month interval, that attempts were made to enforce child support obligations, and that orders for medical support were enforced. Several cases were not assigned the proper case type classification in the computer system.

Noncompliance With Federal Regulations Concerning the Distribution of Child Support Payments*

The department did not always remit intercepted IRS tax refunds in a timely manner. The refunds were remitted late or not processed at all.

Inadequate Transfer and Reconciliation Process for Child Support Enforcement Funds

The department failed to collect all child support funds due from court clerks and did not reconcile the undistributed child support balance recorded in the Tennessee Child Support Enforcement System (TCSES) with child support collections and distributions.

State Contracting Rules Circumvented

During fiscal year 1998, the department contracted with the University of Tennessee to provide certain services. At the request of the department, the university subsequently subcontracted with a private firm to provide some of these services through a sole-source contract.

Insufficient Records Management Procedures

The department did not ensure all records were properly filed and stored. Supporting documentation could not be located for several items requested during the audit.

Noncompliance With Federal Regulations Concerning Requirements for the Purchase of Medical and Other Services

The Social Security Disability Insurance Program did not have a

mechanism to ensure that the rates paid for medical services did not exceed the highest rate paid by federal or other agencies in the state for the same or similar services.

Inadequate Controls Over Payroll and Personnel

The hours worked and/or leave hours taken according to the Employee Attendance and Leave Authorization forms did not always agree with the hours for which the employees were compensated. In addition, overtime was not always properly approved.

Inadequate Security Over Computer Systems*

The department did not have adequate application controls over user access to TCSES, the Automated Client Certification and Eligibility Network (ACCENT), and the Resource Access Control Facility (RACF). Separation of duties was not maintained; terminated employees' access privileges were not revoked; security authorization forms were missing or not properly completed; the security table contained inaccurate information regarding users; and user IDs were not properly accounted for.

Ineffective Internal Audit Function*

The department's internal audit section did not effectively audit the department's operations. The internal audit section performed audits and reviews on only one of the department's major federal programs.

Tennessee Board of Paroles

For the Years Ended June 30, 1997, and June 30, 1996

Lack of Proper Assessment and Collection of Fees*

The Tennessee Board of Paroles did not assess and collect from parolees all of the fees they were required to pay.

Lack of Proper Controls Over Equipment

Board personnel did not always follow the Department of General Services' equipment policies and procedures. Management had not monitored controls over equipment to ensure all procedures were followed.

Late Submission of Annual Reports

The board did not prepare and submit its annual report to the Governor as required by statute.

Regional Library System

For the Years Ended June 30, 1997, and June 30, 1996

Compliance With Equipment Procedures Needs Improvement*

Equipment items were not always tagged or added to the inventory listing; serial numbers were not always accurate or included on the inventory listing; equipment items were added to the inventory listing at the wrong purchase price; equipment was not always charged to the correct object code; computer equipment and computer software were not always tagged and identified separately on the inventory listing; equipment items were added to the equipment listing without a tag number; the location of equipment items was not always correct on the inventory listing; and access to the library was not adequately controlled.

A Regional Director Did Not Meet the Qualifications for the Position Held

The Regional Director at Shiloh Regional Library did not meet the minimum job qualifications for the position when appointed.

Compliance With Expenditures Procedures Needs Improvement*

Several weaknesses related to expenditures were noted at the regional libraries including late payments to vendors, lack of approval on invoices, and failure to cancel invoices to preclude duplicate payment.

Tennessee Regulatory Authority

For the Year Ended June 30, 1997

Noncompliance with the Financial Integrity Act*

The authority did not prepare and submit the Financial Integrity Act report which was due December 31, 1997.

Department of Revenue

For the Years Ended June 30, 1997, June 30, 1996, and June 30, 1995

OBSERVATIONS AND COMMENTS

Revenue Integrated Tax System (RITS)

This is the first audit conducted since the Department of Revenue began implementing the Revenue Integrated Tax System (RITS). Due to the major impact RITS has on the department's operations, it is appropriate to provide an overview of how the system began and its progression to this point.

In 1991, the department began planning for a fully integrated tax system to encompass 32 taxes which when completed will process over two million transactions per year and account for and distribute over \$7 billion per year. The project was divided into three components: planning, defining user specification requirements, and design and implementation. The first tax was implemented in April 1995 and the last tax is scheduled for implementation by December 1998.

The initial contract for the design and implementation phase called for all taxes to be implemented by July 1996. This timeframe was quickly realized to be unrealistic due to the scope and complexity of the task, and schedule modifications have occurred. While the relationship with the third-party contractor has been strained at times (five different partners-in-charge), a great deal of work has occurred to convert tax information from a variety of systems, manual and automated, to one fully integrated system.

The audit period covers the initial implementation period of the RITS system. Implementation of any new system will inherently have problems. This report identifies problems with the RITS system at the time of the audit. The Department of Revenue is aware of these problems with the system and is working to correct them. During the audit period, RITS has processed tax returns and tax payments, printed tax returns, issued debit and credit notices, processed enforcement cases, and distributed and apportioned billions of dollars of tax revenue. Twenty-five taxes are now integrated within RITS. The RITS system will be an exceptional tax processing system when the implementation problems are corrected. The Department of Revenue and the

Department of Finance and Administration, along with the contractor, are committed to a successful conclusion to this project.

The Department's Revenue Integrated Tax System Has Serious System Problems

In April 1995, the Department of Revenue began the implementation of the Revenue Integrated Tax System (RITS). The implementation of RITS has taken over a year longer than originally projected because it has been plagued with problems, some of which have been very significant. Overall, the system has not operated efficiently or effectively since its implementation.

Balancing Problems Occurred During the Revenue Integrated Tax System Implementation

The Daily Summary of Collections Reports contained out-of-balance conditions, and the taxpayer accounting reports did not always balance to revenue accounting reports. Collections were reported on the deposit slip and the Bank Deposit Report, but the Revenue Integrated Tax System (RITS) did not complete the processing cycle and properly record the payments.

The Processing Division Did Not Deposit Receipts Timely*

Of 101 tax payments tested, 93 (92%) were not deposited in a timely manner. The number of business days late ranged from one to seven days.

The Exceptions Processing Unit Did Not Deposit Receipts Timely*

The department did not utilize its suspense clearing account in the Exceptions Processing Unit. As a result, 71 payments totaling \$132,239.63 were deposited from one to 156 days late.

Procedures for Changing Taxpayer Account Balances Were Inadequate*

The department did not approve changes made by tax auditors to certain taxpayer account balances unless the changes exceed \$5,000. There are two changes to RITS reports that, when developed, will be used to review changes to taxpayer accounts; however, no current guidelines have been approved for making such changes.

Refund Approval Procedures Were Inadequate*

Not all tax refunds were approved. Also, interest paid on late refunds was classified as a reduction of revenue instead of as an expenditure.

Fiscal Services Did Not Properly Handle or Safeguard Returned Refund Warrants

In July 1997, Fiscal Services had 611 warrants returned as undeliverable stored in a lock drawer. The warrants were not voided, and they totaled \$35,017. Some of the warrants were more than 17 months old.

Manual Refunds Were Not Reflected in Taxpayer Accounts in RITS, and Proper Support for Issued Refunds Is Lacking

Manual refunds that have been paid were not always reflected properly in the taxpayer's account. For some refunds tested, the refund could not be traced to the taxpayer's account in RITS, and the taxpayer account still maintained a credit. The Refund, Penalty, and Waiver Unit (RPW Unit) issued refunds to taxpayers without proper support.

Internal Controls Over the International Registration Plan Unit's Inventory, Mainframe Computer System, and Check-Receipting Procedures Need Improvement

A special investigation revealed that management of the International Registration Plan unit could not be assured that licenses were issued properly and that revenue was properly collected because of weak controls over the unit.

The Department Needs to Review Its Method of Recording Payments Received With Franchise and Excise Tax Extension Requests

The department changed its method of accounting for payments accompanying extension requests for franchise and excise (F&E) taxes. However, this change may distort the reporting of actual tax collections.

Duties in Revenue Accounting Not Adequately Segregated

Duties of the employees performing revenue accounting functions in the Fiscal Services Division were not segregated. The duties of reviewing out-of-balances, documenting them in a problem report, and entering the corrective data were done by the same persons. Four employees in Fiscal Services had inappropriate system access to both enter and approve revenue transactions.

Controls in the Tax Enforcement Division Need Improvement*

The department did not maintain adequate control over uncollectable accounts, bankruptcy claims case collections, and regional offices' receipt books and officers' diaries.

Taxpayer Payments and Accounts Were Not Always Properly Processed by the Revenue Integrated Tax System

Even though the total tax payments were deposited, sometimes no payment or only part of the payment was posted on RITS. This was usually due to an interruption of a nightly update run. RITS did not always record electronic funds transfers to the proper account.

The Department's Disaster Recovery Plan Needs Improvement

The department's disaster recovery plan contained no backup and recovery procedures for RITS, nor did it reflect the current divisions of the department or the correct name of the storage facility.

**Management Information Systems Policies and Procedures
Manuals Need to Be Updated**

The policies and procedures manuals did not contain any policies and procedures for the Revenue Integrated Tax System.

Security Over Revenue Integrated Tax System Was Inadequate

The department has not developed documentation for organization-level security nor defined specific security. There were no security reports to allow management to review RITS access and limit access to provide proper segregation of duties. Duties were not properly segregated on RITS. For example, an employee in Taxpayer Services has access to not only add new taxpayers and maintain accounts but to issue refunds, issue credits, change taxpayer balances, maintain deposit information, and maintain cases.

**Management Information Systems Needs to Improve Controls
Over Program Changes**

Computer programs SQL Processor Using File Input (SPUFIs) were being used to correct tax-payer accounts. SPUFIs were not always adequately tested, properly documented, or properly approved by the Assistant Director, Database Administrator, or the user before being made.

Inheritance and Gift Tax Procedures Were Inadequate*

Instructions for the Tennessee Inheritance Tax return have not been revised to reflect current law. Policies regarding inheritance returns were not consistent with the law regarding notifications from insurance companies, and procedures had not been developed for appropriate notification to estates.

Department of State

For the Years Ended June 30,
1997, and June 30, 1996

Cash-Receipting Function Not Adequate*

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue.

Duties Not Adequately Segregated*

Duties in the fiscal and personnel offices were not adequately segregated. The purchasing clerk performed personnel duties while an accounting technician and an administrative assistant who process payments in the fiscal office were performing purchasing duties.

**Department of Tourist
Development**

For the Years Ended June 30,
1998, and June 30, 1997

Accountability for Equipment Unsatisfactory

Accountability for equipment needs to be improved. Seven of 60 items tested could not be located and information was not always correct on the Property of the State of Tennessee (POST) property listing.

Tennessee State Veterans' Homes Board

For the Year Ended June 30, 1997

Accounts Receivable Practices Not Adequate

The Tennessee State Veterans' Homes Board's accounts receivable balance did not portray a complete picture of the receivable activity or the true amount the board must attempt to collect. The board had not promptly refunded Medicaid overpayments. The management company had not properly reduced the rate adjustments for certain Medicaid eligible veterans. In addition, the management company had not appropriately written off uncollectible receivable accounts.

Equipment Accountability Needs Improvement

The board could not locate all equipment items selected for testing and not all items tested were properly tagged.

Payments Not Made in a Timely Manner*

Vendor invoices were not always paid within 45 days, the management fee for the Humbolt facility was not paid timely, and interest expense of \$5,936.44 was incurred due to late payments of the Tennessee Bed Tax.

Universities, Colleges, and Technical Institutes

Austin Peay State University

For the Year Ended June 30, 1998

Telephone Charges Not Reconciled

Because the Telecommunications Department did not compare long-distance charges with telephone billings, \$175,000 of unbilled calls were not detected timely.

No Procedures to Determine Class Attendance*

There were no procedures to determine if Pell recipients had not begun attending some classes. Therefore, the university would not have recalculated Pell grant awards to students who failed to begin attending some of their classes.

Nashville State Technical Institute

For the Years Ended June 30, 1997, and June 30, 1996

Controls Over Purchases and Vehicles Need Improvement

An institute secretary was able to charge personal purchases from the bookstore to her department and used institute vehicles for personal travel.

Roane State Community College

For the Years Ended June 30, 1997, and June 30, 1996

Pell Awards Not Recalculated When Students Do Not Begin Attendance in Some Classes

The college did not recalculate Federal Pell Grant awards to students who failed to begin attendance in some of their classes because there was no procedure in place to determine if Pell recipients do not begin attendance in some classes. The lack of a procedure could result in an overaward to some recipients.

Shelby State Community College

For the Years Ended June 30, 1997, and June 30, 1996

Maintenance Workers' Misappropriation and Abuse of Time Totaling \$2,800

A maintenance worker and a maintenance supervisor performed personal business activities on state time and charged the state for materials. They also made repairs to personal vehicles and billed the college for the automotive parts. Total known costs to the college were \$2,829.98.

Improper Actions of Faculty Member Totaled \$1,370

A temporary faculty member misused the college's postal services, telephone, and credit card. The college detected the attempted misuse of the postal services (\$997) and stopped it before the loss occurred. Improper telephone and credit card charges (\$373) were incurred and were not recovered.

Accounts Receivable Collection Efforts Not Adequate*

Collection policies and procedures were not followed for student, daycare, and third-party receivables.

Better Accountability for and Reporting of Equipment Needed*

Control policies and procedures for the safeguarding and financial reporting of the college's equipment were not followed. Equipment balances were overstated by \$50,414.69 on June 30, 1997, and by \$429,294.26 on June 30, 1996.

Inadequate Internal Controls Over Data Processing

Adequate internal control policies and procedures over data processing security have not been established.

Property Losses and Investigations of Malfeasance Not Reported to Comptroller of the Treasury

The college has not complied with Section 8-19-501, *Tennessee Code Annotated*, which requires the reporting of shortages and losses to the Comptroller.

Families First Program Overcharged \$115,672.51

Training expenditures of \$115,672.51 charged to the grant could not be supported.

Refunds to Financial Assistance Programs Not Properly Calculated or Paid Timely*

The Financial Aid office did not properly calculate refunds to the Title IV Student Financial Assistance programs or remit them within the required time frames. Costs of \$4,128.95 were questioned.

Financial Assistance Inappropriately Awarded*

The Financial Aid office made awards to students who were not eligible, resulting in questioned costs of \$928.50.

Tech Prep Grant Overcharged \$6,154.59

The salary of the Director of the Tech Prep grant was paid entirely by the grant, although 25% of her time was not spent on the grant.

The State University and Community College System of Tennessee—Central Office For the Years Ended June 30, 1997, and June 30, 1996	The Central Office Has Not Included an Evaluation of Its Internal Control in Applicable Financial Integrity Act Reports The Tennessee Board of Regents Central Office prepares a Financial Integrity Act Report annually, which consists of a compilation of the Financial Integrity Act Reports it receives from Tennessee Board of Regents institutions. The Central Office did not include an evaluation of its own internal control in the Financial Integrity Act Report filed for 1997.
Tennessee State University For the Year Ended June 30, 1998	Some refunds due student financial assistance programs not calculated correctly Six of 16 refunds calculated using the state refund policy (37.5%) were not accurate, resulting in underpayments totaling \$3,644.
Tennessee Technology Center at Elizabethton For the Years Ended June 30, 1997, and June 30, 1996	Improvement Needed in Title IV Refund Procedures None of the recipients whose records were tested were due refunds according to Tennessee Board of Regents policies. Title IV Refunds Not Made Timely Five of five refunds tested were not credited to the applicable program accounts timely as required by federal regulations.
Tennessee Technology Center at Hartsville For the Years Ended June 30, 1998, and June 30, 1997	Pro Rata Refunds Were Not Calculated* The center did not calculate pro rata refunds as required by federal regulations and the center's own policy.
The University of Memphis For the Year Ended June 30, 1998	Inadequate Accounts Receivable Collection Efforts Delinquent accounts were not referred to collection agencies promptly.
The University of Tennessee For the Year Ended June 30, 1998	Contracts Not Approved Before Beginning of the Contract Period* The university allowed services to be rendered before proper university approvals were obtained. If contracts are not approved before services are rendered, the university could be obligated to pay for unauthorized services. Campus-Level Review of Sole-Source Contracts May Not Be Sufficient The university's reasons for sole-source procurement of services have not always been clearly identified and well documented. A listing of sole-source contract approvals should periodically be forwarded to the Vice President for Business and Finance for review. Failure to Follow Purchasing Procedures Purchasing department personnel systemwide did not fully comply with the university's established purchasing procedures concerning informal competitive price quotations and sole-source purchases.

Failure to Recalculate Certain Pell Awards and to Monitor Withdrawals

The University of Tennessee at Knoxville and the University of Tennessee at Memphis did not recalculate federal Pell Grant awards to students who failed to begin attending some of their classes. In addition, the University of Tennessee at Knoxville did not monitor the class attendance of financial aid recipients for evidence of unofficial withdrawal.

Failure to Promptly Return Financial Aid Refunds

The University of Tennessee at Chattanooga and the University of Tennessee at Memphis did not always return the federal financial aid portion of refunds to lending institutions in a timely manner. In addition, the University of Tennessee at Memphis did not always follow federal regulations for the timely crediting of refunds to student financial aid programs.

**Volunteer State
Community College**

For the Years Ended June 30,
1998, and June 30, 1997

Delinquent Accounts Not Promptly Referred to Collection Agencies

Delinquent accounts receivable were not referred to collection agencies within a reasonable period of time.

Community Services Agencies

**Knox County Community
Services Agency**

For the Year Ended June 30, 1998

Financial Responsibilities Not Segregated*

One employee performed all cash-receipting, purchasing, disbursing, and recordkeeping duties.

Proper Budgetary Procedures Not Followed

The agency incurred expenditures before contract budgets were amended.

**Southwest Community
Services Agency**

For the Year Ended June 30, 1997

Monitoring of Subrecipients Not Adequate

The agency's subrecipient monitoring procedures were not sufficient to detect possible noncompliance with contract/grant terms.

Funds Committed Without Approval

The agency entered into a fiscal year 1998 contract with the Department of Health before the fiscal year 1998 Plan of Operation was approved.



Ron Paolini, CPA, CGFM
Assistant Director

The Medicaid/TennCare section, under an agreement with the Department of Health, provides audit, rate setting, and consulting services for the Medicaid nursing facility program and the TennCare Program. Most of the state's Medicaid Program has been replaced by the TennCare Program, a managed care waiver approved by the federal government. State mental health services are included in the waiver under the TennCare Partners Program. The nursing facility program, however, remains in the traditional Medicaid setting.

A staff of professional auditors perform the following functions:

- Review hospital cost reports and compute inpatient and outpatient cost settlements for service periods through December 31, 1993.
- Review hospital cost reports and compute settlements for state-operated intermediate care mental retardation facilities and for home health agencies (for service periods before January 1, 1994).
- Conduct field reviews of intermediate care facilities for the mentally retarded and Level I and Level II nursing facilities.
- Perform desk reviews of cost reports and compute per diem reimbursable rates for nursing facilities participating in the Tennessee Medicaid Program.
- Conduct financial-related reviews of the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that have contracted with the state to provide services to recipients under the TennCare and TennCare Partners Programs.

- Assist the Department of Health, as requested, with quality assurance reviews of the TennCare MCOs.
- Compute certified public expenditures in public hospitals. Defined as the difference between a hospital's TennCare costs and TennCare payments, "certified public expenditures" are needed to comply with certain provisions of the TennCare federal waiver approval.

In addition to its Medicaid and TennCare responsibilities, the section conducts audits of the state health insurance plans.

During the year, we provided technical support and assistance to PricewaterhouseCoopers in conjunction with their actuarial study of the TennCare Program. We also completed a special analysis of the cost of reopening TennCare enrollment to the uninsured population. Also, we have been providing technical support to the Department of Health as it explores new federal funding opportunities.

Provider Reimbursement

Auditors assigned to provider reimbursement computed per diem rates and cost settlements for hospitals, home health agencies, and certain administrative costs in the Department of Children's Services.

Hospitals

Hospital cost reports for years ended through December 31, 1993, were still being reviewed during 1999. Cost report settlements for Medicaid hospital services (services provided prior to January 1, 1994) continue to be computed in the traditional manner. Hospital cost report settlements are expected to be completed by mid-2000.

Home Health Agencies

Home health agency cost report settlements for periods prior to 1994 are now completed. This function has now been terminated.

Level II Nursing Homes

Cost report settlements will be computed for Level II nursing facilities for services provided through September 30, 1996. Beginning with services on and after October 1, 1996, Level II nursing homes will be paid on a prospective basis similar to Level I. Level II settlements are expected to be completed by mid-2000.

State Intermediate Care/Mental Health Providers

Beginning with the year ended June 30, 1996, the state moved its mental retardation facilities to retrospective cost settlement so that the state could more quickly react to increasing costs in the program. The TennCare section will be responsible for computing the cost settlements for these providers.

Reviews

ICF/MR and Nursing Facilities

The Medicaid/TennCare section reviews nursing facilities and intermediate care facilities for the mentally retarded (ICF/MR). The reviews cover patient trust funds and those aspects of the facility's operations critical to Medicaid reimbursement. During the year ended June 30, 1999, the section released one review. Several informal reviews of nursing facilities were also completed during the year. These reviews typically are limited to problem areas in a facility's operations or are requested by the provider or the Medicaid Bureau.

The most frequent findings resulting in repayments to the Medicaid nursing home program were claims for nonallowable expenses and failure to refund credit balances. The most frequent finding resulting in refunds to recipients was failure to refund former patients' credit balances.

Managed Care Organizations (MCOs)

The Medicaid/TennCare section performs compliance reviews of TennCare managed care organizations. These reviews are intended to aid the Bureau of TennCare in its review to determine whether the terms of the MCO contracts are met. The terms of these contracts include proper claims payment, proper accounting for payments from the TennCare Bureau, proper enrollment counts, maintenance of financial reserves, and sufficient record keeping.

During the year ended June 30, 1999, the section released five MCO reviews. The most frequent finding concerned weaknesses in the claims-processing system. Other major findings involved insolvency, deficiencies in financial reporting, and incorrect application of deductibles and copayments.

Behavioral Health Organizations (BHOs)

The Medicaid/TennCare section performs compliance reviews of the two TennCare Partners behavioral health organizations. These reviews are intended to aid the Department of Mental Health and Mental Retardation in its review to determine whether the BHOs have adhered to the terms of their contracts. The terms of these contracts include proper claims payment, proper accounting for payments from the TennCare Bureau, proper enrollment counts, maintenance of financial reserves, and sufficient record keeping. The TennCare Partners Program began July 1, 1996. An audit of the TennCare BHO covering the period January 1, 1997, through June 30, 1998, is in progress.

State Health Insurance Plans

The audit of the State Employee Group Insurance Program, the Local Education Group Insurance Program, and the Local Government Group Insurance Program for the plan period ended December 31, 1995, was completed during the year and released in October. The plans are

administered under contract with Blue Cross and Blue Shield of Tennessee. The insurance program contains a performance standard under which Blue Cross agrees to manage utilization. The standard involves holding cost increases for medical services to no more than a percentage increase based on the consumer price index. Blue Cross was found to have met the performance standard. The audit for plan years 1996 and 1997 began in July 1998.

Budget Monitoring

The Level I and Level II nursing facility programs, by regulation, cannot exceed a payment level of \$726 million for fiscal year 1999-2000. The Medicaid/TennCare section captures the nursing home payments from the state system each month to monitor compliance with the global budget limit.



Barbara K. White, CPA, CGFM
Assistant Director, TennCare-Special Projects

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare Projects. Two such projects are currently in progress:

- The Comptroller of the Treasury has been assigned certain review and reporting responsibilities in a recently executed TennCare consent decree. The decree is being analyzed, and a review and reporting plan are being developed in consultation with the state personnel who will be responsible for its implementation.
- Legislation passed last session requires the Comptroller to appoint a pharmacy committee to study certain TennCare pharmacy issues. The Division of State Audit has appointed the committee and will be overseeing its activity. The first meeting of the committee was held on December 9, 1999.

Performance



Deborah V. Loveless, CPA, MBA, CGFM
Assistant Director

A performance audit is an independent examination of the extent agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management

- by assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of management's organization and use of resources,
- by developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agency's operations, and
- by providing pertinent program and financial data about the agencies.

Most of the performance audit section's workload is performance auditing directed by the Tennessee Governmental Entity Review Law, commonly known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*). This law requires that each agency, board, commission, or other entity be reviewed at least once every eight years by the legislative Joint Government Operations Committee to determine whether that entity should be continued, restructured, or terminated.

Audit staff focus their efforts on the audits of major entities. In the year ended June 30, 1999, the performance audit section released nine audit reports and one special report and had 16 projects in process at year-end. The Government Operations Committees held 15 public hearings on 45 entities in the year ended June 30, 1999. At these hearings, performance audit staff presented audit reports covering 36 entities.

Another seven entities submitted written responses to staff-prepared questions based on their statutory authority and responsibility. In addition, the committee received updated information requested in prior-year public hearings on two entities.

Audit Process	<p>Performance audits are conducted in accordance with generally accepted government auditing standards. Audits progress through six phases: planning, detailed audit field work, report writing, comments from agency management, publication of the final report, and presentation of the final report at a legislative hearing. Performance auditing includes the following activities:</p> <ul style="list-style-type: none"> • Review of relevant state and federal laws, court cases, Attorney General’s opinions, executive orders, rules, and regulations. • Review of the agency’s procedures, plans, and policies. • Examination of the agency’s records, files, and correspondence. • Interviews with staff of the audited agency and related agencies. • Observation of the agency’s operations and activities. • Analysis of the agency’s revenue and expenditure data. • Analysis of the agency’s program data, performance measures, and reported results. • Review of comparative data from other states. • Surveys of individuals, agencies, and organizations served or affected by the agency. • Tests for compliance with significant legal and administrative requirements. • Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost. • Recommendations of possible alternatives for legislative or administrative action that may result in more efficient and effective accomplishment of the agency’s legislative mandate.
Results of Audits	<p>The following are summaries of the results of the nine audit reports released during the year ended June 30, 1999.</p>
Tennessee Alcoholic Beverage Commission October 1998	<p>Some Food Audits Not Conducted and License Suspension or Revocation Not Initiated</p> <p>State law allows restaurants to sell wine and other alcoholic beverages for consumption on the premises if the licensee has adequate kitchen equipment for serving meals, provides seating for at least 75 people at tables, and serves food as its “principal business.” The commission completed only 53% of its scheduled food audits to determine if food service was a restaurant’s principal business. In some cases, the commission did not attempt to suspend or revoke the licenses of</p>

establishments that were serving little, if any, food and/or were not providing the minimum seating.

Licenses Renewed When Licensees Owed Delinquent Taxes

By renewing licenses when licensees owed delinquent taxes, the commission failed to enforce state statute forbidding such renewals. The licenses of 36% of the liquor-by-the-drink licensees reviewed were renewed even though the licensees owed delinquent taxes. The amount of taxes owed ranged from \$477 to \$24,044.

No Off-Site Storage of Computer Information

The commission began entering all information concerning violations, licenses, permits, and server training into computers in 1996. Although the commission backs up the information on disks or magnetic tapes, these back-ups are not stored off-site.

OBSERVATIONS AND COMMENTS: The audit discusses the following topics that may affect the operations of the commission and the citizens of Tennessee: (1) the server training program, which grants server permits for those who serve alcoholic beverages and monitors programs that provide alcohol awareness training to servers, and (2) liquor-by-the-wire, which is the shipment of alcoholic beverages directly to consumers.

**Department of
Children's Services**
November 1998

Inadequate Information on the Foster Care Program

Central office management does not have sufficient information to ensure the Foster Care Program is operating effectively or to evaluate the performance of field staff. In order to adequately oversee a program, management needs readily available, accurate data on children in foster care and on staff's activities, compliance with policies and rules, and program results.

Lack of Compliance With Policies Concerning Monthly Visits With Foster Care Children and Number of Children Per Foster Home

The 1992 Department of Human Services performance audit reported that counselors were not making contacts with foster children as often as required and that some foster homes had more than six children. Although the Foster Care Program has since been transferred to the Department of Children's Services, these problems continue.

Effectiveness of Some Early Intervention Programs Not Tracked

The department has invested a great deal of money in early intervention programs. However, the department's ability to monitor the effectiveness of these programs (i.e., to determine whether such programs are successful in keeping children from entering or reentering state custody) is limited because, except in the case of the Home Ties program, neither the department nor the programs track program participants.

No Formal, Consolidated Guidelines and Procedures for Wraparound Fund Expenditures

There are few department policies or procedures, no statutes, and no grant guidelines describing allowable and nonallowable expenditures from wraparound funds. Thus far, guidance has been provided sporadically, in the form of memoranda focusing on specific problems. Without formal comprehensive guidelines and procedures, field staff have difficulty determining what is an appropriate expenditure.

Insufficient Internal Audit Staff to Perform Needed Reviews of Facilities and Programs

The Department of Children's Services has not had sufficient internal audit staff to adequately audit a department with 3,000 employees stationed throughout the state. From July 1996 (when the department was created) to August 1997, the department had only one internal auditor. The department hired an Internal Audit Director in August 1997 and a Correction Program Manager by April 1998. Two Auditor IIIs and an Auditor II were hired after April 15, 1998.

Joint Effort Needed to Ensure Sufficient Monitoring of Contract Agencies' In-house Schools

Eighty of the agencies the Department of Children's Services contracts with have in-house schools and educational programs which are approved annually by the Department of Education and monitored by the Department of Finance and Administration's Office of Program Evaluation. However, it is not clear whether all major aspects of every contract agency's educational programs are evaluated, particularly the quality of the educational services provided.

Unfilled Security Positions Result in Overtime and the Use of Less-Trained Contract Personnel

Because of the high number of vacant full-time youth service officer positions, youth development centers and group homes have relied heavily on overtime, which at some level could increase payroll costs and hinder staff's effectiveness. To reduce overtime and fill gaps in staffing, the department contracts with part-time security personnel at some facilities. However, as first noted in the September 1995 performance audit of the Department of Youth Development, the use of contract security staff raises several concerns. First, contract staff tend to be less experienced and more transient. Second, despite the advantages of lower salaries and no fringe benefits for contract security officers, these part-time staff receive only one-fourth as many hours of training as full-time staff, even though they are authorized to perform the same tasks as full-time staff.

OBSERVATIONS AND COMMENTS: The audit also discusses the following issues that may affect the operations of the Department of Children's Services as well as the clients the department serves:

assessment and placement of children entering state custody, the computer system upgrade, the Continuum of Care system, community services agencies, termination of parental rights, and the need for continued communication and coordination between the Departments of Children's Services and Finance and Administration.

**Tennessee Commission on
Children and Youth**

November 1998

**Number of Deinstitutionalization-of-Status-Offender Violations
Rising**

These violations occur when a juvenile alleged to be a status offender (e.g., truant, runaway) is detained in a secure facility beyond time limits established by state and federal law. Tennessee receives over \$1,000,000 a year in federal Juvenile Justice and Delinquency Prevention Act funds. Excessive violations could jeopardize Tennessee's eligibility for these funds.

Commission's Statutory Mandates Not Met

The commission has not compiled an inventory of services for children and youth in each county and has not convened the interdepartmental coordination council since 1991.

**Department of Children's Services Apparently Not Using C-PORT
Results**

Although the results of the Children's Program Outcome Review Team are disseminated widely, the Department of Children's Services, which deals with most children in state custody, does not use the results to improve its programs and services.

OBSERVATIONS AND COMMENTS: The audit discusses the following issues that affect the operations of the commission and the citizens of Tennessee: member attendance, creation of the Department of Children's Services, and ombudsman program activities.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to consider (1) deleting Section 37-3-103(a)(1)(A), *Tennessee Code Annotated*, requiring the compilation of a county-by-county inventory of programs and services for children or changing the requirement to allow the preparation of an inventory by issue or service area as the commission deems necessary and (2) whether the interdepartmental coordination council is still needed.

**Department of Economic
and Community
Development and Related
Entities**

June 1999

**Child Care Facilities Corporation Has Had Minimal Impact on
Child Care Availability**

The corporation does not have sufficient funds or staff to significantly affect the availability of child care. The purpose of the corporation is to assist in the start-up, expansion, improvement, or continued operation of child care facilities by guaranteeing loans from the private sector and by issuing loans and grants. The corporation assisted in the creation of three percent of the new licensed spaces added from October 1991 to March 1998.

A TIIP Grant Was Made Twice for an Amount in Excess of the Statutory Limit

Despite statutory guidelines limiting the maximum grant amount to \$750,000, the Tennessee Industrial Infrastructure Program twice granted one recipient a greater amount. Exceeding statutory limits may decrease the total number of potential grants awarded.

Training Funds Were Paid to a Corporation That Did Not Conduct Any Training

The department awarded over \$450,000 in industrial training services funds to a private, not-for-profit corporation for non-training services.

Statutory Changes Need to Be Made Regarding Related Entities

Several entities associated with the department have very little or no activity: the Tennessee Growth Fund, the Tennessee Neighborhood Development Corporation, the Tennessee Competitive Export Corporation, the Energy Advisory Board, and the International Trade and Export Development Advisory Council.

OBSERVATIONS AND COMMENTS: The audit also discusses the Three Star Program, a program to assist small communities in their efforts to prepare for economic development by enhancing their appeal as locations for economic enterprises.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to (1) consider the future of the Tennessee Child Care Facilities Corporation, (2) put the corporation in the Governmental Entity Review Law, (3) terminate the Tennessee Growth Fund and the Tennessee Neighborhood Development Corporation, and (4) delete the Tennessee Competitive Export Corporation, the Energy Advisory Board, and the International Trade and Export Development Advisory Council from state law.

Department of Health
(including the Bureau of
TennCare)
March 1999

Despite TennCare's Routine Monitoring of the Adequacy of Provider Networks, the MCOs* and BHOs* Continue to Have Problems Providing Adequate Access to Some Types of Care

The TennCare Program has had access/provider network problems since its inception, and there is no evidence these problems will be solved in the near future. TennCare routinely monitors provider networks and has undertaken numerous activities to increase access; however, our survey of providers indicated a high level of frustration with the MCOs and BHOs, the low reimbursement rates, and TennCare in general. This frustration could result in more providers' leaving the program or declining to accept new patients.

*MCOs: managed-care organizations. BHOs: behavioral health organizations.

The Financial Condition of Some of the Managed-Care Organizations Raises Concerns

Based on September 30, 1998, financial filings, two of the eleven managed-care organizations (nine MCOs and two BHOs) in the TennCare Program had not met their net worth requirements. In addition, as of September 30, seven organizations were reporting financial losses in fiscal year 1998. These circumstances raise concerns about the ability of some MCOs and BHOs to remain in the program and to continue to support adequate provider networks.

No Formal Assessment of TennCare Rates Has Been Completed Since the Program's Inception

Without an actuarial study to assess the adequacy of capitation rates paid to the MCOs and BHOs or the rates paid to the service providers, the bureau has no assurance these rates are adequate to maintain the necessary provider networks. Two actuarial studies are in progress—the Department of Health has contracted with William M. Mercer, Inc., to evaluate BHO rates, and the Comptroller of the Treasury has contracted with PricewaterhouseCoopers to evaluate MCO and BHO rates. The PricewaterhouseCoopers study has a legislative due date of March 15, 1999; William M. Mercer, Inc., sent an initial draft report to the Department of Health on December 3, 1998.

TennCare Needs to Continue to Address the Problems Identified in the EPSDT Consent Decree

Inadequacies in the state's provision of Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) services resulted in a class-action complaint and a March 1998 consent decree requiring the state to take a variety of actions to improve quality of, and access to, care for Tennessee children. Since that time, the bureau (1) has prepared a detailed plan of actions to achieve compliance with the consent decree; (2) has begun implementing the action plan; and (3) has submitted two reports describing the bureau's progress. Despite the progress made, an October 1998 report from an outside review team indicates that the bureau needs to continue to work with the MCOs, the BHOs, and the Department of Children's Services to improve services to children, particularly those in, or at risk of coming into, state custody.

Provider Assessments of the TennCare Program Are Negative

Provider assessments (including a Division of State Audit survey of over 1,500 TennCare providers) disclose problems with claims processing, reimbursement rates, medical-necessity standards, drug formularies, referral/prior authorization, and other administrative procedures. Because of these problems, managed-care networks may have difficulty attracting new providers and retaining existing ones. These problems may also compromise the quality of care TennCare enrollees receive.

Weaknesses in TennCare's Formularies Are a Source of Provider Dissatisfaction

The bureau does not adequately monitor the timeliness of authorizations for prior approvals and medical necessity. Providers recently surveyed had the following complaints: the formularies were restrictive, the approval process was slow, and the MCOs were not responsive to their needs.

Appeals Are Not Adequately Monitored

Enrollees have the right to contest in writing any action the MCO or BHO takes to deny, reduce, terminate, or suspend a covered service ordered or prescribed by a particular provider. The TennCare Appeals Unit works to resolve these appeals, collects data regarding appeals, and reports monthly to the TennCare Division of Quality Improvement and quarterly to the Health Care Financing Administration (HCFA). Even though the data are available, TennCare does not monitor or analyze appeals resolution. Analyses of how, why, and where appeals are resolved and how many decisions are appealed can reveal programmatic deficiencies and areas for improvements.

The TennCare Management Information System Is Inefficient

The TennCare Management Information System (TCMIS) is over ten years old and cannot efficiently meet the state's decision-making and reporting needs. Most of the system's programs and applications are designed to process payments to the MCOs, BHOs, and nursing homes. To generate information requested by the legislature, HCFA, and others, TCMIS staff must, in many cases, write special programs; often, such requests are given a lower priority by system management.

MCO/BHO Coordination Efforts Do Not Ensure Enrollees Receive Appropriate Services

With the implementation of the TennCare Partners Program, the BHOs became responsible for mental health and substance abuse services, and the MCOs retained responsibility for providing primary health care. Each MCO contracts with a BHO to ensure TennCare enrollees receive appropriate mental health services. Although the state outlined a framework for coordination, the MCOs and BHOs have failed to establish solid working relationships. Poor communication between the MCOs and BHOs and weak monitoring by TennCare hinder efficient and effective service delivery. Unless coordination improves, TennCare cannot ensure enrollees receive all needed physical and mental health services.

MCOs and BHOs Have Not Made Sufficient Effort to Detect Fraud and Abuse

Although the waiver assigns joint responsibility to the MCOs, BHOs, and TennCare for the detection of provider fraud and abuse and although their contract requires the MCOs and the BHOs to report fraud to the Tennessee Bureau of Investigation (TBI) and the Department of Health, only four of the 11 MCOs/BHOs have fraud

policies and detection units in place. Failing to detect fraud and abuse could adversely affect the TennCare Program by reducing the funds available for legitimate services.

TennCare Partners Does Not Provide a Complete Continuum of Care for Enrollees With Substance Abuse Problems

The TennCare Partners Program is not providing a full range of substance abuse treatment services. Under the state's contract with the BHOs, substance abuse benefits are limited to inpatient hospital and outpatient substance abuse treatment. Residential treatment, such as social-setting detoxification and counseling, is not covered under the contract. However, according to provider groups, only about 10% of substance abusers need medical detoxification—the other 90% benefit more from other services, including those provided by residential treatment facilities.

Case Management Services Have Not Been Offered and Provided As Required

TennCare Partners has not ensured that all enrollees suffering from serious mental health problems have access to case management services within seven days of their discharge from care, although the BHOs are required by their contract to offer this service. For the first eight months of 1998, only 605 (14%) of the 4,219 clients discharged by Tennessee Behavioral Health (TBH) providers received or were offered case management services within seven days of their release. Likewise, only 719 (18%) of the 4,003 clients released by providers aligned with Premier actually received case management services within the seven days. Although the BHOs eventually increased their offering of such services during calendar year 1998, failure to provide comprehensive post-discharge treatment to a highly vulnerable population could result in the return to institutionalized care for persons afflicted with serious mental disorders.

The TennCare Partners Program Lacks a Well-Defined Set of Performance Measures and a Focus on Program Outcomes

Without a defined set of performance measures, it is difficult for the external quality review organization, advocacy groups, HCFA, and the bureau's quality improvement unit to adequately monitor the outcomes of the TennCare Partners Program and, thus, to determine the program's overall effectiveness.

The Management Structure of TennCare's Two BHOs Raises Questions About a Lack of Competitiveness and Increased Vulnerability for the State

Magellan Behavioral Health Services essentially manages both of the BHOs that contract with TennCare for mental health services. Magellan owns 50% of one BHO and is in the process of acquiring 100% of the other BHO. This arrangement may limit TennCare's ability to promote cost savings through competitiveness in provision of services. Also, the arrangement could potentially leave the state vulnerable if the company were to drop out of the TennCare Program.

The Fiscal Division Does Not Sufficiently Monitor Vendor Contracts to Ensure Satisfactory Compliance With Contract Requirements

TennCare's Fiscal Division is responsible for processing and administering all bureau contracts, except the MCO and BHO contracts. As of October 19, 1998, the Fiscal Division was administering 34 service contracts totaling over \$400 million—contract amounts for fiscal year 1999 alone totaled \$220 million. The division has no policies addressing contract monitoring or actions to be taken when vendors fail to comply with contract provisions, although division management stated that some individual contracts are written to include monitoring requirements and penalties for noncompliance. TennCare can choose not to renew the contract of a vendor that does not comply with its contract. However, without adequate monitoring, the division has no basis on which to make such decisions.

The Submission of Encounter Data Is Still Problematic

Encounter data detail services provided to managed-care patients and enable TennCare staff and others to evaluate the impact of the program on enrollees. Despite significant improvements in the timeliness of submission and the quality of encounter data, considerable problems still plague the MCOs' and BHOs' submission of encounter data and the bureau's effort to ensure the accuracy of the data.

The Bureau Does Not Have a Conflict-of-Interest Policy for Persons Who Make or Give Advice on Decisions Concerning Drug Formularies

The Bureau of TennCare does not have a conflict-of-interest policy that requires members of various formulary committees and boards to periodically submit statements disclosing potential personal and professional conflicts of interest. The bureau also has not developed procedures describing how and under what situations committee members should recuse themselves from participation in formulary decisions for which they may have a potential conflict of interest.

Home-Based, Long-Term Care for TennCare Enrollees Is Severely Limited

With the exception of Shelby, Davidson, Knox, and Hamilton Counties, TennCare does not pay for assisted-care services in the home for enrollees requiring long-term care. Moreover, services in those counties are limited to a relatively small population—400 in Shelby County and 50 in each of the remaining counties.

MERGER-RELATED ISSUES: The audit discusses the following issues related to the proposed merger of the Department of Mental Health and Mental Retardation with the Department of Health: the extent of consolidation between the departments, the lack of a written management plan to coordinate state health and mental health programs, and the effect of the proposed consolidation on the delivery of services to mentally ill and developmentally disabled Tennesseans.

FOLLOW-UP OF FEBRUARY 1998 AUDIT FINDINGS: The audit discusses our evaluation of the Department of Health's actions to correct deficiencies identified in the February 1998 Sunset audit of the department. Included in the text are the original February 1998 findings and management's comments, the department's September 1998 follow-up responses, and our evaluation of the department's follow-up activities and the current status of those activities.

OBSERVATIONS AND COMMENTS: The audit also discusses the following issues: the status of public health in Tennessee, the current role of the county health departments, TennCare cost savings, TennCare enrollee satisfaction issues, the results of an investigation of TennCare, and the department's role in Families First home visits.

**Health-Related Boards
and Emergency Medical
Services Board**

March 1999

**Practitioner Complaint Processing Lengthy and Disciplinary Action
Lenient**

The timeliness of the complaint-handling process appeared lengthy for some of the open and closed cases reviewed and the disciplinary action the board took appeared lenient in some cases. Most of the boards do not have guidelines specifying a range of actions to take for different types of offenses. Such disciplinary guidelines could help boards decide on appropriate and consistent penalties.

Access to Public Information Varies Among the Boards

The Division of Health Related Boards' lack of a written policy on releasing information about practitioners to the public has resulted in conflicting procedures among the boards. Five boards anonymously contacted by auditors had different requirements for obtaining information on practitioners and/or provided information different from that in the practitioners' files.

Not All Boards Have Subpoena Powers

The Board of Medical Examiners is the only board that can issue investigative subpoenas. This type of subpoena allows investigators to obtain patients' medical records. The other boards can issue only testimonial subpoenas (requiring a person to testify) or have no subpoena authority. Without subpoena power, investigators may not be able to obtain the information necessary to determine if a violation has occurred.

Boards Lack Conflict-of-Interest Policies

Neither the Division of Health Related Boards nor the individual boards have a policy requiring employees or board members to periodically submit disclosure statements of potential personal and professional conflicts of interest. Without a means of identifying potential conflicts and discussing and resolving them before they have an impact on decisions, board members and staff could be subject to questions concerning their impartiality and independence.

Only Two Boards Have Authority to Assess Costs to Disciplined Practitioners

The Board of Medical Examiners and the Board of Osteopathic Examination have statutory authority to assess disciplinary costs, although they have not yet used this authority. All boards rely on license fees to pay operating costs. If all boards could assess costs to disciplined practitioners, the resulting funds could be used to pay board operating expenses.

Boards Should Consider Increasing Public Representation

Fourteen boards have at least one public member; the Board of Medical Examiners has three public members. The Emergency Medical Services Board has no public members. Citizen representatives can bring a different perspective to the board, enhancing the board's ability to protect the public health.

Not All Boards Assess Continuing Competence

Not all boards require practitioners to obtain continuing education or demonstrate continuing professional competence as a condition of license renewal. Most boards require practitioners to complete a specified number of hours of continuing education as a condition of license renewal, but five boards do not require continuing education of all the practitioners under their jurisdiction.

Emergency Medical Services Board Revenues Do Not Cover Operating Costs

Revenues generated from license fees collected by the Emergency Services Board are not sufficient to cover the costs of regulating the profession and its practitioners. Regulatory boards attached to the Division of Health Related Boards are required by law to be self-supporting, but the Emergency Medical Services Board, part of the Bureau of Manpower and Facilities, is not.

OBSERVATIONS AND COMMENTS: The Emergency Medical Services Board is not included in the Governmental Entity Review Law.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to consider (1) authorizing investigative subpoena power for all the boards, (2) granting authority to assess disciplinary costs to those boards that do not have the authority, (3) increasing the number of public members required on the health-related boards, (4) requiring public members on the Emergency Medical Services Board, (5) requiring the Emergency Medical Services Board to be self-supporting, and (6) including the Emergency Medical Services Board in the Governmental Entity Review Law.

Range of Enforcement Actions Available Too Limited

Some types of health care facilities must commit violations serious enough to warrant suspension or revocation before the board can take any action. Facilities with violations that do not warrant such actions simply have to submit a plan of correction. State civil penalties, which apparently could have been imposed against a number of facilities over the last few years, are not being used, and, in any case, are only allowed by statute to be used against deficient nursing homes and in very limited cases against assisted-care living facilities. Federal civil penalties are also only available against deficient certified nursing homes but can be avoided or reduced in many cases. These restrictions all translate into limited consequences for most facilities that violate regulations and the law.

Abuse/Neglect Complaints Not Always Investigated in a Timely Manner*

According to the Health Care Facilities Division's timeliness standard, staff did not investigate 18 percent of a sample of abuse and/or neglect complaints in a timely manner. Failure to promptly investigate an abuse or neglect complaint could reduce the chance of substantiating that complaint because bruises or bedsores heal, facilities correct problems that would have warranted investigators' citing deficiencies, or witnesses' accounts of events become cloudy or unsure. In addition, although in most cases staff appear to be placing the appropriate priority on abuse/neglect complaints, some complaints were not assigned as high a priority as it appears they could have been.

Noncompliance With and Limitations in the Law Lessen the Effectiveness of the Abuse Registry*

The state's elderly abuse registry meets the requirements of federal regulations, since it actually is a registry of certified nurse aides in Tennessee and notes findings of abuse in individuals' files. However, this registry does not comply with state law, which requires that the Department of Health establish an abuse registry containing the names of anyone found to have abused or intentionally neglected elderly or vulnerable individuals. But even if the registry listed all abusers, certified nursing homes are the only health care facilities required to check the registry before hiring, and no facilities are required to act on the information they find there. Furthermore, no facilities are required to periodically recheck the registry after hiring to ensure employees have not been placed on the registry after being hired. Finally, there is no national abuse registry, and little sharing of abuse registry data among states, to help ensure abusers do not simply move to another state and begin working with vulnerable persons again.

Surveys of Facilities Other Than Nursing Homes Not Always Completed Annually*

We reviewed files to find the three most recent survey (inspection) reports and to determine whether the two most recent surveys were conducted in consecutive fiscal years following the first survey in

the sample, regardless of how many months elapsed between the surveys. Twelve of 156 possible surveys (7.7 percent) were not conducted in the fiscal year following the previous survey. Allowing longer periods of time between surveys could allow deficiencies affecting the health, safety, and welfare of patients to go unchecked, increasing the likelihood of harm to patients.

No Central Database for Tracking Facility Surveys*

The lack of central databases to track facility surveys and complaints was discussed in the 1996 Sunset Audit of the board. Since that audit, the division has developed and put into use a central database for tracking complaints, but no such database exists to track facility surveys.

OBSERVATIONS AND COMMENTS: The audit also discusses the following issues that may affect the operations of the Division of Health Care Facilities, the Board for Licensing Health Care Facilities, and the health, safety, and welfare of the people of Tennessee: variations in numbers of enforcement actions and complaints among the division's three regions and among Tennessee and other states; waivers of board rules; the lack of jurisdiction over unlicensed facilities and certain types of facilities; conflict-of-interest issues; communication between state long-term care ombudsmen and the Division of Health Care Facilities; the regulation of methadone clinics in Tennessee; and the new federal minimum data set requirements.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to consider legislation (1) authorizing the Department of Health to enter and investigate unlicensed facilities in the state; (2) requiring emergency care walk-in clinics and dialysis clinics to obtain a license before operating; and (3) allowing the department to impose civil penalties against deficient facilities of all types, not just nursing homes, in order to encourage compliance with regulations and the law. The General Assembly may also wish to reassess those portions of the statute that require the state to prove "willful" disregard for regulations before Type B civil penalties can be imposed.

The General Assembly may wish to consider (1) requiring all health care facilities, not just certified nursing homes, to check the abuse registry before hiring staff members; (2) prohibiting facilities from hiring individuals whose names appear on the registry; and (3) requiring health care facilities to periodically check employees against the registry after they are hired, perhaps for a designated period of time.

Professional Regulatory Boards

February 1999

Not All Boards Have Met the Requirement for Self-Sufficiency

Professional regulatory boards are required to be self-sufficient, i.e., their revenues in a given year should be sufficient to cover their expenses. Board revenues are generated from application, examination, and license-renewal fees; charges for address changes and other administrative functions; and charges for inspections at some boards. (Because some boards have a biennial license-renewal period, revenues in every other year are limited to new licensees' fees and other charges.) Three of the boards reviewed were not self-sufficient during the last two fiscal years; another board was not self-sufficient during the last three fiscal years.

The Division's System for Processing Complaints Could Be Improved

The Division of Regulatory Boards does not have a uniform system to process complaints filed against licensees, and there is no central repository documenting complaint information and complaint status for all boards. Thus, the division's ability to track complaints is limited. In addition, although most complaints we reviewed were processed within a reasonable time, a few boards were not timely in sending letters to licensees requesting a response to complaints filed against them. These delays greatly increased complaint-processing times.

The Board for Licensing Alarm Systems Contractors Has Not Consistently Enforced License Renewal Requirements

The Board for Licensing Alarm Systems Contractors has not consistently taken action against alarm companies and qualifying agents (supervisors of alarm system contractor operations) whose licenses have expired and are therefore operating on an invalid license. In many cases, board staff continue to list such licensees as "active" on the board's printed roster of licensees and on information in the board's computer system. (Although the system showed that the appropriate fees, etc., had not been paid, the licensee was listed as "active" on all computer screens.) As a result, consumers who request information about whether an alarm company or qualifying agent is properly licensed may receive inaccurate information.

Two Members of the Board for Licensing Alarm Systems Contractors Had Expired Licenses During Their Board Terms

According to Section 62-32-308(d), *Tennessee Code Annotated*, no person (with the exception of the public member) is eligible to sit as a member of the Board for Licensing Alarm Systems Contractors unless he or she is a licensed qualifying agent. A file review of qualifying agents found that the licenses for two board members had expired. One member's license expired April 30, 1997, and was not renewed until April 1998. (Even then, his continuing education requirements had been met only through April 1997.) Another member's qualifying-agent license expired October 31, 1997, and was not renewed until February 1998.

The Burial Services Section Is Not Auditing All Cemetery Companies and Is Not Enforcing Compliance With Reporting Requirements

The Burial Services Section's ability to monitor the appropriateness of cemetery companies' financial activities is limited by the lack of annual audits and by some cemetery companies' and their trustees' failure to submit timely annual reports. Although Section 46-2-313, *Tennessee Code Annotated*, requires an annual audit of cemetery companies' Improvement of Care Funds, seven of the 14 cemetery companies' files we reviewed contained no record of an audit of these funds during 1997. In addition, our review of companies' files found that some cemetery companies and cemetery company trustees were not submitting required annual reports in a timely manner.

Reprocessing Unreadable Fingerprint Cards Is a Burden for the Three Security Industries Licensing Boards

Applicants to these boards are required to submit three sets of classifiable fingerprints on standard TBI/FBI applicant cards. Two sets of these fingerprint cards, which are used to conduct background checks on the applicants, are submitted to the TBI and the FBI simultaneously, along with a \$24 processing fee to each agency. The TBI and the FBI sometimes reject the fingerprint cards because they are unreadable. (Our review of fingerprint submissions from January to May 1998 indicated that about 7% were rejected.) There is no charge for applicant fingerprint cards that are submitted to the TBI and FBI a second time. However, cards that must be submitted additional times cost the boards \$48 (\$24 for the TBI and \$24 for the FBI) each time the cards are processed. In addition to the monetary cost, board staff spend a substantial amount of time obtaining and reprocessing additional sets of fingerprint cards.

The Board of Funeral Directors and Embalmers Is Allowing Funeral Establishments That Change Owners to Operate Under the Existing License, in Violation of State Law

The Board of Funeral Directors and Embalmers has allowed funeral homes to operate under the licenses of the former owners until the licenses expire or until the establishments apply for new licenses, even though state law says these licenses are not transferable or assignable. The board apparently wants to ensure the continuation of services during changes of ownership. Our review of board meeting minutes found that the board hears approximately 25 requests for ownership changes per year. Since licensee files do not indicate when a new owner begins operating a funeral home using an existing license, the board does not know how long new owners typically manage funeral homes before applying for licenses. The board's biennial licensing period could allow a new owner to operate under an existing license for many months.

OBSERVATIONS AND COMMENTS: The audit also discusses the following issues that may affect the operations of the professional regulatory boards and the Division of Regulatory Boards, as well as the citizens of Tennessee: the need to evaluate the monitoring of preneed funeral contracts; the Board of Cosmetology's actions in response to concerns about nail shops and the use of nail drills; the Real Estate Commission's policies regarding the licensing of persons with criminal convictions; the Board of Pharmacy's monitoring of impaired pharmacists; funeral directors' and embalmers' need for continuing education on exposure to communicable diseases and formaldehyde; the need to better document the method used to allocate indirect costs to the boards; the boards' inspections of licensees; and the storage of board licensee files on microfilm.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to revise the statutes to clarify whether the Departments of Commerce and Insurance and Finance and Administration are to consider the professional regulatory boards individually, or as a group, for budget and self-sufficiency purposes.

**Tennessee Registry of
Election Finance**
November 1998

Candidates Can Avoid Disclosure in Certain Cases

The Registry of Election Finance sends violation notices to candidates who do not submit required financial disclosure reports. However, if a candidate does not accept the certified notice, the registry cannot take further disciplinary action. Also, a candidate who wins the general election can be sworn into office without submitting the required reports.

OBSERVATIONS AND COMMENTS: The audit discusses the following issues that affect the operations of the registry and the citizens of Tennessee: (1) the lack of authority to require candidates to provide supporting documentation for their financial disclosure reports; (2) the timing of the due dates of the allocation report, which indicates how excess contributions will be allocated, and the post-general disclosure report, which indicates the ending balance of the campaign fund; (3) the requirement that citizens provide personal information in order to view a candidate's file; (4) the advantages of an electronic filing system for campaign contribution disclosures.

ISSUES FOR LEGISLATIVE CONSIDERATION: The General Assembly may wish to consider (1) amending state law so that the allocation of unexpended contributions report is submitted at the same time as or after the post-general disclosure report; (2) amending state law so that certified violation notices returned as unclaimed can be reissued by overnight delivery and be considered served; and (3) amending state law so that candidates who win the general election are required to file all disclosure reports prior to being sworn into office.

Special Investigations and Information Systems



Glen McKay, MBA, Ph.D., CIA, CGFM, CFE
Assistant Director

Special Investigations

Authority to conduct special investigations is provided in part by Sections 8-4-201 through 8-4-208, *Tennessee Code Annotated*. The special investigations section gathers information and evidence resulting in prosecutions and/or recovery of funds and coordinates the efforts of other agencies involved in the investigation. The investigators assist local district attorneys general, the Office of the Attorney General, and the Office of the United States Attorney General.

Investigations are initiated as a result of information discovered during audits by the Department of Audit and through information from individuals or other departments and agencies. The matters investigated during the year ended June 30, 1999, ranged from embezzlement of public funds to abuse of public resources. The illegal activities were at both the state and the local level. Factors frequently contributing to these illegal activities were weak internal controls or ineffective management.

Funds recovered during fiscal year 1999 as a result of special investigations amounted to \$486,279.37. Illegal activities exposed during fiscal year 1999 resulted in one conviction and one indictment. As a result of the exposure of their activities, three state employees were terminated from employment with the state, three resigned, two were suspended, ten were issued written reprimands, and five were issued verbal reprimands.

Since October 1983, the Department of Audit has provided a toll-free hotline for reporting fraud, waste, and abuse of government funds and property. Periodicals throughout Tennessee publish information to alert citizens to the hotline and encourage them to report wasteful, inefficient, or fraudulent activities. In addition, agencies receiving community grant

funds are required to display in a prominent place signs calling attention to the hotline. Since its inception, the hotline has received 7,276 calls, including 375 calls between July 1, 1998, and June 30, 1999. Of these 375 calls, 231 concerned allegations of abuse or fraud; the remaining 144 represented requests for assistance or information. The substantive calls, relating to abuse or fraud, concerned a wide range of entities, including municipalities, counties, and state agencies and departments. Substantive calls are investigated by the Department of Audit or referred to the appropriate state agency or program. In the event of nonsubstantive calls, such as requests for tax information, the caller is referred to the appropriate agency or department.

The special investigations section's contribution to the state is significant in that the section exposes abuses of public property and funds and, when possible, aids in the recovery of funds lost through illegal activities. Furthermore, as a result of special investigations, agencies that have been the victims of abuse are able to develop better controls to prevent, or at least make more difficult, future occurrences of fraud, waste, or abuse.

Results of Investigations	The following are summaries of the results of the special reports released during the year ended June 30, 1999.
Department of Health, TennCare Bureau– TennCare Bureau’s Alleged Improper Changes to External Survey Report January 1999	<p>The review determined that during April and May 1998, TennCare Bureau staff did review a draft of the First Health’s External Quality Review Organization’s (EQRO’s) draft focus survey report on Tennessee Behavioral Health, Inc. (TBH). TennCare Bureau staff did suggest changes to First Health staff. First Health staff agreed with the changes and adopted them in the final version of the focus survey.</p> <p>A comparison of the draft focus survey report with the final report disclosed that some of the revisions in question could reasonably be considered by third-party readers to materially alter the meaning of 5 of the 61 findings with regard to shortcomings of the TennCare Bureau, TBH, and the TennCare Partners Program. Although the revisions may give the appearance of deliberate changes to a draft report to deflect criticism from the TennCare Bureau, no direct corroborative evidence was found to support the allegations that these changes were outside the boundaries of the contract, were intentionally deceitful, or the result of undue influence. The changes should be considered in the context of the explanations provided by TennCare Bureau and First Health staff and the role of the EQRO survey reports.</p> <p>The controversy surrounding the EQRO focus survey report on TBH raises two principal areas of concern: (1) the appropriate structure for the EQRO function to ensure the external and independent role of the surveyors, and (2) the intended readership and scope of the survey reports. In addition, a separate issue noted in the review was the extent to which the EQRO should focus on quality of care.</p>

First, the external independence of the EQRO function should be ensured in fact and appearance to the greatest extent possible. TennCare Bureau staff should certainly be involved in ensuring the factual accuracy in EQRO survey reports. However, with the current framework, TennCare Bureau staff have the ability to censor criticism of the TennCare Bureau's actions, or lack thereof, so that a third-party reader would not recognize that reported problems may be attributable to the TennCare Bureau, and not to the BHOs or MCOs. The possibility that reports could be improperly revised, which is feasible in the current structure established by the TennCare waiver, guidelines, and state contract, should be carefully reviewed, with the objective of ensuring that the EQRO functions as an effective external and independent review organization in fact and appearance.

Second, if the EQRO reports were intended to be for the benefit of the bureau and not intended for third-party readers, then clearly the bureau's suggested changes and limitations placed on the scope of the report (removal of references to TennCare Bureau shortcomings) were not deceptive or misleading. The report would have been advising the bureau about already known shortcomings. The current contract provides for the EQRO to report to the bureau (the state) and does not refer to third-party readership other than the federal government. If there is no change to the anticipated audience, similar changes by TennCare staff to future drafts would be expected. If the EQRO, however, is to report to the state as a whole, including third-party readers, and if these reports are revised in the same manner, the reports would appear misleading. Given the statewide impact of the TennCare program, it would appear that the EQRO surveyors and the bureau should consider third-party readers.

Finally, quality of care is an important aspect of the EQRO reports and should be reviewed by the EQRO according to the guidelines adopted in the TennCare waiver. Given the perspective, as stated by TennCare Bureau staff, that the surveys function on a continuum, starting with the quality management system and progressing to quality of care, the TennCare Bureau should proceed in a timely manner to adopt performance measures and grievance policies and procedures and to explore means to enable the EQRO to address quality of care.

**Department of Safety,
Division of Title and
Registration–Improper
Alteration of Title Records**
February 1999

Our analysis of the transaction data for a vehicle personally owned by Mr. Terry Thomas, a criminal investigator with the Criminal Investigations Division (CID), Department of Safety, shows that in February 1998, someone improperly entered a “stolen vehicle” stop code, an “administrative” stop code, and 666DVL as the former license plate number. We also determined that in March 1998, someone changed the owner name for a state-owned undercover vehicle assigned

to Mr. Thomas from Ronald Baker to Arnold Baker and then to Benedict Arnold.

Our review determined that the changes to Mr. Thomas' title records were all made under the computer identification number (also called a RACF ID for Remote Access Control Facility) and password of Ms. Connie Easterly, Sequatchie County Clerk. An individual's state-assigned RACF ID and personally selected five- to eight-digit (numbers or letters) password allows access to the title and registration computer system.

Although Ms. Easterly's RACF ID and password were used, these transactions cannot be tied conclusively to her because someone else with access to the title and registration computer system could have acquired her RACF ID and password and entered the information. During our April 1, 1998, interview with Ms. Easterly, she directly denied making any changes to Mr. Thomas' title records. Ms. Easterly also stated that she did not know who made the improper changes and that she did not suspect anyone of making the improper changes.

Based on available information, the only person with the ability, access, and incentive to change Mr. Thomas' title records was Ms. Easterly. Mr. Thomas stated that sometime in late 1997, his personal relationship with Ms. Easterly became strained. According to Mr. Thomas, around the end of January 1998, Ms. Easterly threatened to ruin him politically, personally, and professionally. He stated that after this encounter with Ms. Easterly, he discovered that the title record relating to his 1979 Ford truck contained false information. Mr. Thomas explained that he had reviewed all title information related to his personal vehicles because he had taken note of Ms. Easterly's threatening remarks and an earlier comment she had made to him concerning her ability to make any changes she desired to title information.

Someone was able to improperly change Mr. Thomas' vehicle title records in part because the Division of Title and Registration did not appropriately restrict county-level personnel's access to transaction codes required to make the changes and did not properly monitor the county clerk office's use of these functions.

On September 29, 1998, we submitted our findings pertaining to the matter to the Office of the State Attorney General and the Office of the District Attorney General, Twelfth Judicial District (Pikeville). On August 18, 1999, a Sequatchie County Grand Jury indicted Ms. Easterly on five counts of official misconduct and five counts of forgery.

**Department of
Transportation, Region 3
Maintenance Garage
(Nashville)—Review of the
Improper Disposal of an
Automobile Lift and
Misuse of Garage
Facilities and Equipment
May 1999**

The auditors determined that DOT Region 3 maintenance garage staff had improperly disposed of a surplus automobile lift from the DOT Region 3 garage on January 5, 1999. It was also determined that eight DOT Region 3 employees had repaired non-state vehicles at the DOT Region 3 garage and that a state-owned forklift had been slightly damaged during one of the repairs. Further, two DOT employees admitted making false statements to the audit staff conducting the review.

On January 15, 1999, the automobile lift was returned to the DOT Region 3 garage after the auditors determined that the proper disposal procedures had not been followed. On the same date, the state-owned forklift was repaired by DOT Region 3 mechanics. DOT management issued suspensions and letters of reprimand to employees in consideration of their varying degrees of involvement in the improper activities. The DOT Region 3 employee responsible for damaging the state-owned forklift was required by DOT management to reimburse the state for the cost of its repair.

The DOT Director of Operations issued a memorandum to all DOT Regional Directors, dated February 8, 1999, prohibiting the repair of non-state vehicles at DOT garages and ordering that all DOT employees be informed of the DOT policy regarding disposal of excess property.

On February 16, 1999, the Office of the District Attorney General, Twentieth Judicial District (Davidson County), was notified of our findings pertaining to the improper actions of the Region 3 employees.

Information Systems

The Information Systems (IS) section provides two basic services: data retrieval and IS systems review.

Data Retrieval

The data retrieval staff provide information for audit field work. They write computer programs to provide information from the state's centralized accounting system, individual agency service delivery systems, and college and university transaction files. Various statistical sampling techniques, together with stratification and summary reports, provide the auditor a statistical basis on which to evaluate an entity's operations.

Data retrieval staff also produce listings and perform comparisons and other procedures to detect errors or irregularities. Working closely with other audit staff, retrieval staff develop new computer-assisted audit techniques.

Information Systems Review

The IS review staff are responsible for obtaining and documenting an understanding of the internal control structure in the computerized accounting and management information systems of entities undergoing financial and compliance audits. These entities include state agencies, colleges and universities, and quasi-governmental organizations. The IS staff review the general and application controls within data processing systems when those systems significantly affect the auditee's operations. The results of these reviews are included in the financial and compliance audit reports. The individual computer centers for various state agencies are audited according to generally accepted government auditing standards.

Developments

The IS section is developing automated techniques to reduce costs and improve efficiency. The retrieval and review staff work with the financial and compliance auditors to create computer-assisted audit techniques (CAATs) that use computer programs to perform portions of the audits now done manually.

To expand its capability to perform CAATs, the division has implemented Audit Command Language (ACL) software. ACL, data analysis audit and reporting software, enables nontechnical auditors to perform sophisticated queries and analyses of financial transactions by simply clicking a mouse. Because ACL's capabilities are audit specific, yet still highly flexible, the software allows auditors to readily organize and evaluate information embedded in complex systems. IS audit staff provide support in the migration of CAATs from the mainframe to the financial auditors' personal computers.

The IS audit staff recognize that as computer-based systems become more commonplace, all auditors will need increased technical skills to perform their jobs. Toward that end, the IS section has been heavily involved with in-house training and for several years has taught classes on word processing, PC operating systems, spreadsheet software, specialized audit software, and auditing automated financial management systems. In addition, information is exchanged through contacts with other state audit organizations for ways to improve IS audit support.

Y2K Report Summary

In May 1999, IS staff concluded a review of the state's remediation efforts for the year 2000. The review was performed using surveys, questionnaires, interviews, and reviews of information provided by the Year 2000 Project Manager, Year 2000 Coordinators, and other appropriate staff in state agencies and institutions of higher education. Review efforts focused on the remediation status of mission-critical application systems in state agencies and institutions of higher education because of those systems' pervasive effect on government operations. No procedures were performed pertaining to the year 2000 efforts and activities of the federal or local governments or of private-sector third parties.

The review noted that significant progress had been made and remediation efforts were continuing. However, certain matters had come to our attention that, if left uncorrected, could diminish the effectiveness of the state's overall remediation efforts. These included:

- Mission-critical application systems reported as remediated by programming staff were not always certified as remediated by owners.
- Few entities reported that they had documented communications regarding interfaces between systems.
- Although inventories of mission-critical application systems had been developed, few entities reported conducting an inventory of embedded systems and performing risk assessments of these systems.
- Most entities reported that they had not established business continuity plans.
- OIR reported the Administrative Office of the Court's Tennessee Court Information System (TNCIS), the Department of Children's Services Tennessee Kids Information Delivery System (TNKIDS), and the Bureau of TennCare's TennCare Management Information System (TCMIS) as having the potential for major problems in their remediation efforts.

Legislative Liaison



Allen Barron
Legislative Liaison

The Comptroller's Office provides staff to the Senate and House Finance, Ways and Means Committees for assistance with fiscal and budget information. In addition to furnishing information, the staff produces three fiscal publications for distribution to legislators and their constituents and other government agencies.

The *Fact Book*, first prepared in 1987, is an annual, pocket-sized publication that is a compilation of budget information and facts about major departments of state government. It also includes federal, state, and local budgets and graphs; revenue schedules; and various national and state data comparisons.

Analysis of Expenditures and Positions and Selected Fiscal Data, an annual publication since 1981, presents comparisons of budgets and authorized positions by showing the amount and percentage of growth over a five-year period for each department of state government. In addition, the approximately 110-page publication presents fiscal data for various state programs for the same period.

County-by-County Analysis consists of 95 sets of schedules (one set of nine schedules for each county) that detail by major programs the estimated state dollars benefiting the residents of a county. State government agencies furnish basic data for the schedules while the Division of State Audit provides significant personnel support for the project. *County-by-County Analysis* has been compiled each year since 1977.

Division of County Audit



Richard V. Norment
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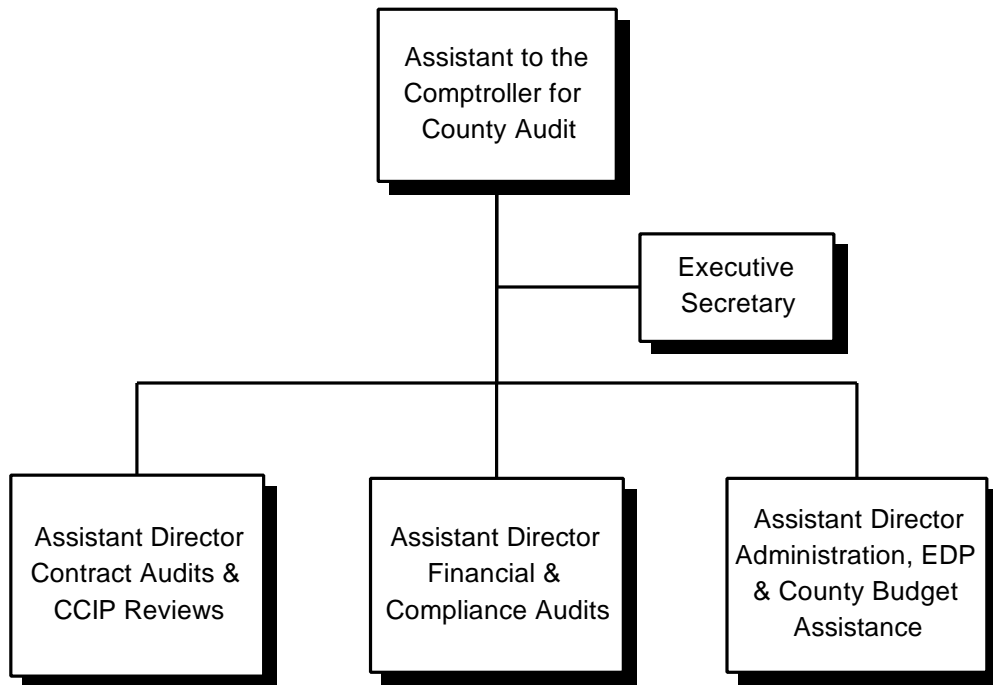


Arthur L. Alexander, CGFM
Assistant Director
Financial and Compliance



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Assistant Director
Administration, EDP & County
Budget Assistance

Division of County Audit



The Department of Audit, through the Division of County Audit, is responsible for the annual audits of all 95 counties in the state. The division may conduct the audit of a county or accept an audit prepared by a certified public accountant provided the audit meets minimum standards for county audits established by the Comptroller of the Treasury. However, the Division of County Audit is required to prepare an audit in each county at least once every five years or to participate with, or monitor the audit with, the certified public accountant.

Financial and Compliance

The division presently conducts audits in 87 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.

Contract Audits

In the remaining eight counties, the division monitors the audits with the certified public accountant in accordance with a four-year monitoring plan that is updated annually. This more detailed review of a certified public accountant's audit includes (1) the performance of various monitoring procedures during the audit and (2) when necessary, the performance of more detailed audit procedures by division staff, the certified public accountant's staff, or a combination of both.

The division also approves the contracts of certified public accountants and reviews their audit reports and working papers. The objective of this review is to ensure that in addition to the standards prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the United States Comptroller General, certain standards prescribed by the Comptroller of the Treasury have been followed.

Budgets/Financial Assistance Services

In addition to the basic post-audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include providing assistance, upon request, to counties in resolving current problems with financial administration and interpretation of laws, as well as answering questions on various local governmental matters. Technical assistance also is provided to counties in the design and installation of accounting systems, in the maintenance of other accounting records, and in the preparation of annual operating budgets.

Scope of Activity

Post-Audit of County Governments

The Division of County Audit conducted audits in 87 of the state's 95 counties during the 1998-99 audit year. A minimum of ten offices or departments in each county was audited:

County Trustee	General Sessions Court Clerk
County Executive	Chancery Court Clerk and
Department of Education	Master
Department of Highways	Register
County Clerk	Sheriff
Circuit Court Clerk	

The audits of all offices were for the year ended June 30, 1998.

The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment. Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office, then printed and released. The entire process is concluded within approximately four months from the date of initial field work.

The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

EDP Systems Review

Most county governments in Tennessee have automated all or a portion of their accounting systems. The EDP review section is responsible for conducting reviews of those systems as part of the audit process. An audit manager supervises the section's six EDP auditors, who are assigned to different areas of the state.

An EDP systems review consists of a review of the general and application controls of a county's computer hardware and computerized accounting information systems. Findings resulting from an EDP review are discussed with the appropriate officials and presented in a report on the internal controls regarding computer operations in the county. The EDP findings also may be included in the county's comprehensive annual financial report.

EDP systems reviews were conducted in 32 counties during the year ended June 30, 1999. The division anticipates that EDP reviews will be conducted in 33 counties during the year ending June 30, 2000.

The Year 2000 (Y2K) date change poses one of the most significant challenges ever faced by the information technology industry. The risk of significant adverse effects on local governments from computerized systems failures requires action on the part of local government officials and managers. During 1999, the EDP staff continued to make visits to counties to ensure that county officials are aware of the potential impact of Y2K on their computerized accounting and information systems and to determine the status of each county's progress in addressing the Y2K issue. The visits also ensure that counties comply with Governmental Accounting Standards Board Technical Bulletin 98-1, which requires governments to make certain disclosures concerning Y2K in their comprehensive annual financial report.

Budget Assistance

Several counties request the division's assistance in preparing their annual operating budgets. This technical assistance normally requires five to ten working days. The division provided budget assistance to 48 counties during 1998.

Monitoring and Review of Contract Audits

A four-year monitoring plan is maintained by the division for counties audited by certified public accountants. The division will monitor audits of eight county governments during the next four years. The audits of Hamblen and Hamilton Counties were monitored for the year ended June 30, 1998, and the audits of McMinn and Washington Counties will be monitored for the year ended June 30, 1999.

The division reviewed 280 audit reports for the year ended June 30, 1998, submitted by certified public accountants for audits of county governments, authorities, boards, commissions, agencies, and special school districts. The division anticipates it will review 294 such reports for the year ended June 30, 1999.

Reviews of Funds Administered by District Attorneys General

During 1999, the division conducted reviews of Fraud and Economic Crime Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 1997, through June 30, 1998. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.

Reviews of County Correctional Incentive Program (CCIP)

Tennessee Code Annotated, Title 41, Chapter 8, referred to as the County Correctional Incentive Act, provides counties financial incentives to house nondangerous felony offenders at local correctional facilities. The purpose of the program is to mutually benefit state and county governments by helping to alleviate overcrowding in state correctional facilities and reduce high operating costs, and to assist counties in upgrading local correctional facilities and programs. Counties participating in the program may be reimbursed at either a minimum statutory daily rate or a rate based on a county's "reasonable allowable cost" to house convicted felons.

The Division of County Audit conducts reviews of counties participating in the County Correctional Incentive Program. In performing the reviews, the division tests the county's financial records and other supporting records pertaining to the Final Cost Settlement Reports. Testwork is also performed on the Correction Facility Summary Reports and State Prisoner Reports. Reviews were conducted in 22 detention facilities during the 1998-99 audit year. As a result of the reviews, it was determined that the state had underpaid \$664,551 for seven facilities and overpaid \$2,941 for three facilities. The reviews of seven facilities resulted in no over- or underpayments. The record-keeping system for five facilities did not allow us to make a reasonable determination of over- or underpayments, and a final cost settlement for these facilities was at the discretion of the Department of Correction. Subsequent monthly claims filed by the affected counties have been or are being adjusted to reflect the underpayments or overpayments.

Financial and Compliance Audit Process

The Division of County Audit performs the following general procedures as part of the financial and compliance audit process:

- Evaluates the entity's existing internal controls in the appropriate areas of operation.
- Confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry.
- Determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records.
- Determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing.
- Determines compliance with federal regulations and state and local laws.
- Obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure.

- Evaluates financial statement presentation to determine conformity with generally accepted accounting principles.
- Evaluates the validity of all evidence obtained throughout the audit process in order to formulate an opinion on the financial statements.

Results of Audits and Reviews

Financial and Compliance Audits

Audits of financial transactions for the year ended June 30, 1998, conducted by the Division of County Audit disclosed cash shortages totaling \$33,423 in 14 counties at the close of the audit period. The cash shortages were in the following offices or funds:

Campbell County Sheriff	\$1,388
Carroll County General Fund	7,612
Cocke County Clerk	1,235
Dickson County Clerk	644
Fentress County Highway Department*	55,988
Lake County Trustee	1,261
Marshall County Juvenile Court Clerk	626
Pickett County Circuit and General Sessions Courts Clerk	1,329
Putnam County Trustee	3,136
Roane County Clerk	2,945
Rutherford County Clerk	1,649
Sequatchie County Clerk	1,971
Stewart County General Fund	8,970
Tipton County Highway Commissioner	300
Weakley County Circuit Court Clerk	357

* This shortage occurred on August 31, 1998.

The audits conducted by this division disclosed fund deficits of \$38,407,000 in 40 governmental fund accounts in 30 counties. These audits also reflected fund deficits totaling more than \$17,042,000 in 19 enterprise fund accounts in 19 counties.

The division's examination of offices and departments in 87 counties resulted in several recurring audit findings summarized below. The number of counties in which the finding occurred is shown in parentheses following the finding.

- A system of central accounting, budgeting, and/or purchasing was not in use, frequently resulting in inefficient and uneconomical operations of various county offices and departments. (59)
- Property records and a self-balancing group of accounts for all general fixed assets were not maintained in accordance with generally accepted accounting principles. (83)

- Fund expenditures exceeded total appropriations approved by the local governing body. (14)
- Purchasing procedures were not in accordance with controlling statutes. (29)
- Clerks of court failed to prepare and/or reconcile a trial balance of execution docket balances with cash journal accounts. (19)
- Drug control funds were not administered in compliance with statutory provisions. (10)
- Funds were not deposited within three days of receipt, as required by state law. (25)
- Depositories for county funds were not required to place securities in escrow in sufficient amounts to adequately protect funds on deposit, as required by state law. (18)
- Fees and commissions earned by the county clerk, clerks of court, and register were not remitted to the county in compliance with controlling statutes. (13)
- Inventory records of assets owned by the county were not maintained as required by generally accepted accounting principles. (44)
- Deficiencies occurred in accounting/recordkeeping. (62)
- An internal control weakness resulted due to the inadequate segregation of duties for accounting personnel. (81)
- Purchase orders were not used or were not issued properly in the purchasing process. (46)

Some of the specific findings disclosed in audits and reviews during the past year are summarized below and on the following pages.

Cumberland County
Executive

For the Year Ended June 30, 1998

Our audit disclosed that since July 1996 one county employee was on the county's payroll for two full-time jobs, as a bookkeeper for a school and as an attendant at a solid waste convenience center. This employee's time sheets erroneously indicated that, for much of the time, she worked both jobs simultaneously. She actually worked at the convenience center on some days after leaving her bookkeeping job and on summer breaks when school was not in session. While she was working at the school, her husband performed her duties at the convenience center. Her husband was drawing benefits from the Tennessee Consolidated Retirement System based on his previous employment with Cumberland County and the City of Crossville, and they feared his retirement benefits would be jeopardized if he worked for Cumberland County.

During the audit period, the county executive took action to end the employee's dual employment and amend income, social security, and retirement reports to reflect accurate wages earned by the employee

and her husband. We reviewed this finding with the district attorney general and provided a copy of the report to the U.S. Department of Labor.

**Dickson County
School Superintendent**
For the Year Ended June 30, 1998

In November 1996 and June 1998, the Board of Education contracted with H and M Construction Company, Inc., for construction management services in connection with phases one and two of the county-wide school improvement program. The board did not solicit competitive bids or requests for proposals for these services. Section 49-2-203, *Tennessee Code Annotated*, requires that construction management services should be procured through competitive bids or by a request for proposals process.

**Fentress County
Highway Department**
For the Period September 1, 1994,
Through August 31, 1998

Our special purpose examination produced several findings. On August 31, 1998, the Highway Department had a cash shortage of \$55,988.93 that resulted from the highway superintendent's using department funds for the benefit of himself and his family.

Various improprieties led to this shortage. The highway superintendent authorized equipment rental payments to a local business owned by his relatives. Further investigation revealed that the highway superintendent owned the equipment the department rented from his relatives' business and that most of the rental payments were channeled back to his daughter. Rental payments for this equipment were included in the cash shortage. Also included in the cash shortage were improper payments for repairs to equipment owned by the highway superintendent and for erroneous equipment rentals and services.

**Humphreys County
School Department**
For the Year Ended June 30, 1998

Our examination of the School Department revealed numerous deficiencies, including various accounting deficiencies, questioned costs regarding grant funds, purchasing and internal control deficiencies, misclassification of several expenditures on the accounting records of funds, the failure to hold expenditures within appropriations approved by the County Commission, the failure to request reimbursement for grant funds, and the lack of inventory records for some equipment. The deficiencies were so prevalent that we were unable to give an opinion on the financial statements of the School Department.

Lincoln County Sheriff
For the Year Ended June 30, 1998

Our audit revealed numerous deficiencies in an undercover drug agent's operations. The agent did not file monthly activity logs to account for expenditures, did not obtain witness signatures when he provided funds to confidential informants, submitted falsified receipts for some fuel purchases, provided no documentation for other fuel purchases, and did not return funds to the county when he terminated his employment. His operations did not result in any arrests for drug violations during this period, and in one instance in which he documented purchasing cocaine, the department had no record of receipt of the drugs as evidence.

Perry County Trustee
For the Year Ended June 30, 1998

The Trustee's Office had a variety of serious deficiencies. Controls over collections were weak—funds were not deposited promptly,

unopened mail containing county revenue was not secured in the office, and dates on receipts were not always the dates the receipts were actually issued. The office also had numerous deficiencies in accounting for delinquent taxes, such as not filing a delinquent tax list with an attorney and not reconciling 1996 and 1997 tax aggregates.

In addition, our audit revealed many accounting deficiencies, including the trustee's not maintaining current and accurate records, not reconciling the office's records with bank statements regularly and accurately, and not properly accounting for taxes in the office's computer system. Because of the lack of internal controls and the number of deficiencies, we reviewed these findings with the district attorney general.

Roane County Clerk

For the Year Ended June 30, 1998

The office had a cash shortage of \$2,945 on July 6, 1998, resulting from the failure to deposit or account for marriage license application fees. Auditors determined that one employee did not receipt 91 marriage application fees, which comprised \$2,821 of the cash shortage. The employee resigned from her position the day that the county clerk discovered the shortage. The county's bonding company liquidated the employee's portion of the shortage after applying a \$500 deductible to the claim, and the county clerk liquidated the other fees in question (\$124) from her personal funds. However, \$500 of the shortage remains unpaid. We reviewed this cash shortage with the district attorney general.

Rutherford County Clerk

For the Year Ended June 30, 1998

An employee of the County Clerk's Office diverted \$1,648.59 in office funds for her personal use. She accepted payments for title applications and issued computer-generated receipts for these transactions, but she did not deposit the funds. To conceal the theft, she deleted the transactions in the computer system, which did not have software installed to provide an audit trail of deletions and changes. This employee subsequently replaced the stolen funds and re-entered the information in the computer system. When the county clerk questioned her about these transactions, the employee admitted to diverting office funds and resigned.

We reviewed this matter with the district attorney general, and in addition to our audit, the Rutherford County Sheriff's Office conducted an investigation of this diversion of funds.

**Scott County Offices of
County Executive and
Director of Finance**

For the Year Ended June 30, 1998

Our audit disclosed seven findings attributable to these offices. The General, Ambulance Service, Highway/Public Works, and School Federal Projects Funds had fund deficits and/or cash overdrafts. The county violated several provisions of the Financial Management

System of 1981, including starting the budget process two months late. Purchasing procedures were not always sound—purchase orders were not always used, adequate documentation for purchases was not always on file, and invoices were not always canceled when paid.

In addition, the director of finance made interfund loans that were not approved by the County Commission and the state director of Local Finance. The director of finance also issued a \$30,000 warrant from the Solid Waste Disposal Fund for the construction of a sewer system at the National Guard Armory. This payment violated state statute and conflicted with an opinion issued by the county attorney. Furthermore, the county allocated to the Rural Debt Service Fund investment income of \$101,432, which was approximately \$70,000 more in investment income than the fund actually earned.

Wayne County Executive
For the Year Ended June 30, 1998

Eight findings resulted from our audit of the County Executive's Office. The office had numerous accounting deficiencies, including not properly reflecting some general ledger account balances on the accounting records of the General Fund, misclassifying revenues and expenditures in the accounting records of several funds, and not performing reconciliations. In regard to purchasing procedures, the office did not always issue purchase orders, did not document some purchases, did not maintain organized files of invoices and bids, and did not always solicit bids for purchases.

Other findings involved not maintaining time and attendance records for all county employees, not adopting personnel policies in the time required by state statute, not maintaining inventory records for county-owned assets, not obtaining approval from the state and not filing the required debt obligation report for a capital outlay note, and not requiring an audit of the county's public library. Additionally, the county's tornado clean-up project had irregularities in its bidding process and payments to employees.

Wayne County Nursing Home
For the Year Ended June 30, 1998

The Wayne County Nursing Home did not comply with state statutes governing the Tennessee Consolidated Retirement System (TCRS). After the administrator retired from the nursing home and began drawing retirement benefits from TCRS, he and the nursing home then entered into a contract which provided for the administrator to work on a full-time basis and perform the duties he had been performing prior to his retirement. The administrator's full-time employment as the facility administrator violates TCRS requirements for retirees. The contract also provided for separate salaries to be paid to the administrator and his wife, who was serving as nursing director. However, the nursing home paid both salaries to the administrator. The administrator's wife had been retired from TCRS for several years. Her employment with the nursing home also violated TCRS requirements.

EDP System Reviews

The following findings resulting from the EDP system reviews recurred in several offices or departments.

- Duties relating to the automated accounting functions were not properly segregated. Incompatible duties should be properly segregated to strengthen internal controls.
- Policies, procedures, and standards relating to routine computer operations were not documented. This documentation is needed to provide a basis for management control.
- A disaster recovery plan was not developed to assist the office or department in the re-creation of its data processing environment in the event of a major hardware or software failure, or temporary or permanent destruction of facilities. Without a formal, written plan, critical computerized applications could be disrupted indefinitely until the system could be repaired or a back-up facility could be found and made operational.
- Various software applications did not have sufficient application controls.
- Periodic system backups were not performed routinely. Furthermore, copies of system backups were not stored in secure, off-site locations. Adequate file retention and system back-up procedures are mandatory to guard against operational errors and disasters.

**County Correctional
Incentive Program
(CCIP) Reviews**

The costs to operate the correctional facilities were not reported in accordance with state guidelines for determining reasonable allowable cost. In some cases, unallowable costs were claimed, while in other cases allowable costs were not claimed. In numerous other cases, costs claimed were either more or less than the actual costs.

Division of Municipal Audit



Dennis F. Dycus
CPA, CFE, CGFM
Director



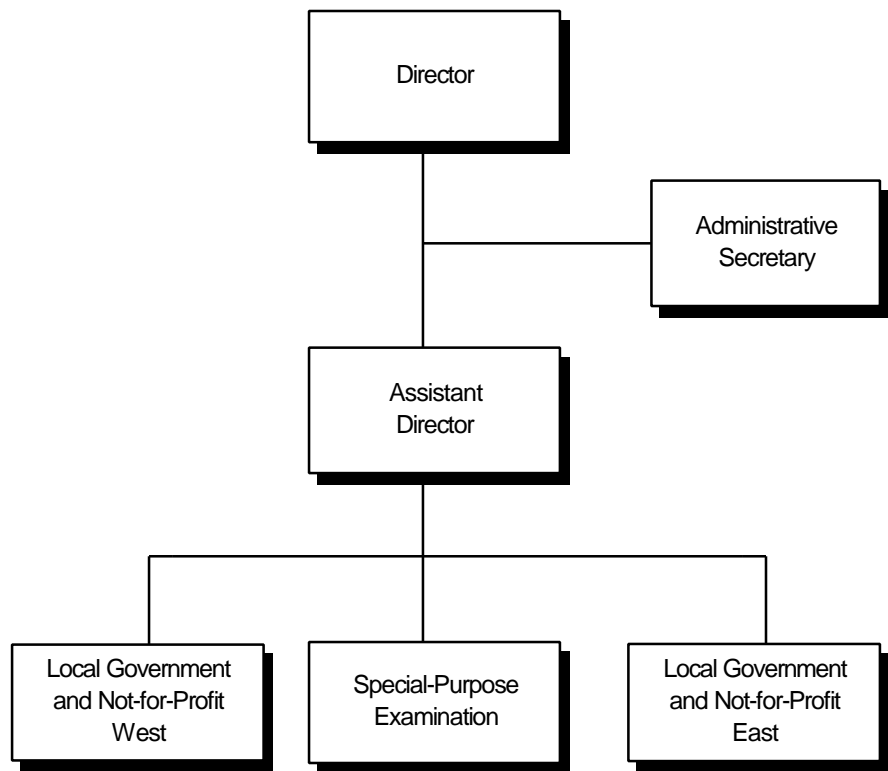
G. Paul Givens
CPA, CFE
Assistant Director

The Division of Municipal Audit ensures that annual audits, required by state statute, are performed for all Tennessee municipalities, public school activity and noncentralized cafeteria funds, utility districts, housing authorities, and certain nonprofit agencies receiving grants from the State of Tennessee. In addition, the division investigates allegations of misconduct, fraud, and waste in local governmental units other than counties, as well as nonprofit agencies receiving state grants, and performs special-purpose examinations of the internal control structures and compliance of school activity and noncentralized cafeteria funds, utility districts, and municipalities.

Audit Review Process

Local governmental units (other than counties) and nonprofit agencies contract with independent certified public accountants to perform annual audits of Tennessee's 349 municipalities, 203 utility districts, 140 public school activity and noncentralized cafeteria funds, 87 housing authorities, and over 180 nonprofit agencies. The entities use a standard contract, prepared by the Comptroller of the Treasury, that must be approved by the Comptroller's designee in the Division of Municipal Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with certain other federal and state provisions.

Division of Municipal Audit



The Division of Municipal Audit reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit or nonprofit agency fails or refuses to have an audit, the Comptroller may direct the Division of Municipal Audit, or may appoint a certified public accountant, to perform the audit. The division evaluates the audit working papers of certified public accounting firms that audit local governmental and nonprofit entities. If the firm's audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy. The division is responsible for monitoring over 2,000 nonprofit organizations that receive grants from the State of Tennessee; some of these organizations are required to have an audit of their entire organization. These audits are conducted by certified public accounting firms which contract with the division.

The division investigates allegations of misconduct, fraud, and waste in local governmental units (other than counties) and certain grant fund recipients. Special-purpose examinations are performed as a result of allegations received through the Department of Audit's toll-free hotline, routine audit reviews, and information received from certified public accountants or other state agencies. Upon completion of each

examination, the Comptroller issues a report presenting documented occurrences of improper activity and recommending corrective action. The report is forwarded to the State Attorney General and the local district attorney general for any legal action deemed necessary.

The division also conducts special-purpose examinations of utility districts, municipalities, and school activity and cafeteria funds. These examinations include a thorough review of the internal control structures and compliance with applicable laws. Municipalities are required by statute to maintain their records, at a minimum level, in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*, prescribed by the Comptroller of the Treasury. Utility districts are required by state statute to follow the *Uniform Accounting Manual for Tennessee Utility Districts*, compiled by the Division of Municipal Audit. State statute requires schools to follow the *Tennessee Internal School Uniform Accounting Policy Manual*, compiled by the Tennessee Department of Education, the Department of Finance and Administration, and the Division of Municipal Audit. At the conclusion of a special-purpose examination, the division publishes a report which identifies internal control structure and compliance weaknesses and recommends corrective action. The examinations point out to municipal, district, and school officials the importance of sound internal controls and compliance with applicable laws and regulations.

Sections 68-221-1010 and 7-82-401g(1), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal wastewater and public utility districts to the state's wastewater Financing Board or the Utility Management Review Board. After reviewing the audit reports, the Division of Municipal Audit will refer financially distressed facilities to the appropriate board. The board then reviews the current financial condition of the facility and its proposed plan for eliminating its financially distressed condition. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action. During the year ended June 30, 1999, 31 municipal wastewater facilities were referred to the wastewater Financing Board, and 14 utility districts were referred to the Utility Management Review Board. As a result, several utility districts and municipal water and/or sewer systems are on their way to operating on a financially sound basis.

The division routinely provides technical assistance to local government officials and certified public accountants. This assistance often requires detailed research of financial accounting concepts and state and federal statutes.

Audits and Special-Purpose Examinations

For the year ended June 30, 1999, the Division of Municipal Audit performed 1,339 reviews of audit reports for local governmental units (other than counties) and nonprofit entities. The division completed the field work and released the audit report of one school. Twenty-nine

special-purpose examinations were released, and 5 special-purpose examinations were in progress. The 29 examinations included 15 municipalities, 7 public schools, 5 utility districts, and 2 nonprofits. The majority of the special-purpose examinations involved allegations of fraud, waste, and abuse and revealed weaknesses in internal controls, no controls, or potential problem areas that created an environment for fraud. During the 1999 fiscal year, examinations revealed losses of at least \$619,783.91 due to fraud. Illegal activities exposed during fiscal year 1999 resulted in 5 indictments. Five cases are pending trial.

Results of Special-Purpose Examinations	Below are summaries of significant problems disclosed in special-purpose examinations:
Upper Cumberland Gas Utility District	The project manager for the utility district was in a position to oversee the construction of gas line installation. He presented invoices and received payment for line installation under the name of a construction company owned by a business associate. According to the business associate, he allowed the project manager to use his invoices and business bank account to channel the funds to the project manager's company bank account. During a three-year period, the project manager submitted these invoices and received payments totaling \$376,028. Subsequent to the release of our report, the project manager was indicted for extortion, theft, and official misconduct.
Clay Gas Utility District	<p>The project manager inflated an invoice by \$34,000 for gas line installation constructed by a contractor for the utility district. He then required the contractor to pay the inflated amount to him in order for the contractor to continue performing construction work for the utility district.</p> <p>The project manager inflated an engineering invoice by \$30,500 and retained the inflated amount for his own benefit. The project manager was also involved in contracts with the utility district while in a position to oversee and let out contracts, creating a conflict of interest. Subsequent to the release of our report, the project manager was indicted for extortion, theft, official misconduct, and money laundering.</p>
Town of Oliver Springs	Between January 1, 1997, and February 28, 1998, collections of \$62,849.97 were embezzled. Town accounting records were falsified to cover the embezzlement. The finance officer for the town admitted to the embezzlement, resigned her position, and was subsequently indicted for theft of over \$60,000.
County-Wide Utility District	During the period October 1997 through February 1999, a commissioner requested and received district checks made payable to him for a total of \$8,780.46, in addition to his regular compensation for attending meetings of the board of commissioners. The commissioner requested the checks for medical insurance even though his former employer

continued to pay the commissioner's medical insurance.

Other findings addressed to the utility district's commissioners concerned incomplete board minutes, inadequate separation of duties, failure to reconcile accounts receivable, purchase orders not used, failure to bid applicable purchases, disbursement documentation not canceled, deposits not itemized, and lack of control over adjustments.

Subsequent to the release of our report, the commissioner repaid the excess payments after requesting and receiving an opinion from the state attorney general concerning our finding related to excess payments to him.

Harbor House, Inc.

Between July 1, 1996, and April 30, 1998, vending revenue totaling \$8,977.50 was collected but not deposited into the entity's bank account. Other collections amounting to \$2,114 were not deposited into the entity's bank account. Subsequent to the release of our report, the director resigned her position.

Appendix

Recognition for Excellence in Financial Reporting

The Certificate of Achievement for Excellence in Financial Reporting, issued by the Government Finance Officers Association, is the highest form of recognition in government financial reporting. Attaining this certificate represents a significant accomplishment. The following Tennessee governments and entities received this award for the year ended June 30, 1998.

State of Tennessee
Anderson County
Blount County
Bristol Tennessee Electric System
City of Athens
City of Bartlett
City of Brentwood
City of Chattanooga
City of Cleveland
City of Franklin
City of Germantown
City of Hendersonville
City of Johnson City
City of Knoxville
City of Lake City
City of LaVergne
City of Memphis
City of Oak Ridge (37 awards)
City of Tullahoma
City of White House
Hamilton County
Knox County
Memphis–Shelby County Airport Authority
Metropolitan Government of Nashville and Davidson County
Metropolitan Knoxville Airport Authority
Morristown Power System
Morristown Water System
Newport Utilities Board Electric Department
Newport Utilities Board Water and Wastewater Departments
Rutherford County
Shelby County
Tennessee Consolidated Retirement System
Town of Collierville
Town of Farragut
Town of Livingston
Town of Smyrna

Professional Recognition

During the year ended June 30, 1999, Department of Audit staff passed certification examinations for Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Kathy Anderson	State Audit	CGFM
Penny Austin	County Audit	CPA
Gerry Boaz	State Audit	CGFM
Gerry Boaz	State Audit	CPA
Melinda Crutchfield	State Audit	CFE
Emily Hudgens	State Audit	CFE
Kevin Huffman	County Audit	CPA
Amy Mallicote	State Audit	CPA
Glen McKay	State Audit	CFE
Daniel Porter	State Audit	CFE
Julie Rogers	State Audit	CISA
Erick Rosa	State Audit	CPA
Shay Smith	State Audit	CFE
Tommy Sneed	State Audit	CFE
Jean Suh	Municipal Audit	CPA
Chas Taplin	State Audit	CFE

Professional Certification

The department is proud of all its staff who have received professional certifications.

Certified Public Accountant**Division of State Audit**

Katherine Anderson	Herb Kraycirik
Ron Anderson	Deborah Loveless
Mason Ball	Amy Mallicote
Catherine Balthrop	Derek Martin
Elizabeth Birchett	Sammie Maxwell
Debra Bloomingburg	Martha McClune
Gerry Boaz	Sandra McSeveney
Lea Ann Boucher	Ron Paolini
Charles Bridges	Steve Phillips
Edward Burr	Chuck Richardson
Mary Cole	Julie Rogers
Donna Crutcher	Joseph Schussler
Michael Edwards	Erica Smith
Elizabeth Gary	Suzanne Smotherman
William Hancock	Scarlet Sneed
Robert Harrill	Chas Taplin
Gregg Hawkins	Kandi Thomas
Arthur Hayes	Clare Tucker
Shirley Henry	Patricia Wakefield
Teresa Hensley	Carla Wayman
Marcia Holman	Barbara White

Bob Hunter
Aaron Jewell

Dan Willis

Division of County Audit

Mark Allen
Penny Austin
Gene Autry
Jeff Bailey
Nolan Bradford
Sharee Brewer
Bryan Burklin
Jerry Burgess
Melinda Daniel
Jerry Durham
Marie Elliott
Michael Ford
Kevin Huffman
Michael Hulme
Wilma Johnston
Joe Kimery

Kelley McNeal
Jan Page
Gerald Poston
Gary Ramsey
Steve Reeder
Vickie Robbins
Anita Scarlett
Tim Stansell
David Sturtevant
Lester Tackett
Mark Treece
Clifford Tucker
Kent White
Daniel Wilson
Greg Worley

Division of Municipal Audit

Robert Allen
Rene Brison
Rebecca Bush
Bill Case
Dennis Dycus
Paul Givens

Iris Haby
Phil Job
Michael Mayhan
Sheila Reed
Jean Suh
Elaine Swyers

Certified Internal Auditor

Division of State Audit

Glen McKay

Division of County Audit

Brad Burke

Richard Norment

Certified Fraud Examiner

Division of State Audit

Melinda Crutchfield
Arthur Hayes
Emily Hudgens
Bob McCloud
Glen McKay

Daniel Porter
Shay Smith
Tommy Sneed
Chas Taplin

Division of County Audit

Jerry Gallemore
Bob Powell

Larry Taylor

Division of Municipal Audit

Rene Brison
Dennis Dycus

Paul Givens
Elaine Swyers

Certified Computing Professional	Division of County Audit Jim Arnette	
Certified Information Systems Auditor	Division of State Audit	
	Deborah Myers	Chuck Richardson
	Beth Pendergrass	Julie Rogers
	Bob Rice	Dan Willis
	Division of County Audit Jim Arnette	
Certified Government Financial Manager	Division of State Audit	
	Dean Agouridis	Sharon Matheny
	Katherine Anderson	Sammie Maxwell
	Ron Anderson	Bob McCloud
	Mason Ball	Glen McKay
	Elizabeth Birchett	Sandra McSeveney
	Debra Bloomingburg	Ron Paolini
	Gerry Boaz	Beth Pendergrass
	Lea Ann Boucher	Chuck Richardson
	Charles Bridges	Randy Salt
	Edward Burr	Suzanne Smotherman
	Donna Crutcher	Scarlet Sneed
	Elizabeth Gary	Kandi Thomas
	Arthur Hayes	Clare Tucker
	Shirley Henry	Patricia Wakefield
	Teresa Hensley	Barbara White
	Marcia Holman	Dan Willis
	Deborah Loveless	Gayle Wortham-Hatch
	Division of County Audit	
	Art Alexander	Carl Lowe
	Jim Arnette	Norm Norment
	Gene Autry	Richard Norment
	Marvin Bond	Bob Powell
	Nolan Bradford	Lee Preston
	Jerry Burgess	Ferman Pride
	Bryan Burklin	Keith Rice
	Kathi Burriss	Vickie Robbins
	Kathy Clements	June Rogers
	Melinda Daniel	David Sturtevant
	Jerry Durham	Lester Tackett
	David Frakes	Larry Taylor
	Jerry Gallemore	Mark Treece
	Michael Hulme	Horace Wiseman
	Wilma Johnston	Greg Worley
	Joe Kimery	
	Division of Municipal Audit Dennis Dycus	

**State Audits Released
During the Year Ended
June 30, 1999**

Financial and Compliance

State Departments, Agencies, and Institutions

Alcoholic Beverage Commission
CAFR—1998
Commission on Aging
Comptroller of the Treasury
Department of Children's Services
Department of Commerce and Insurance
Department of Economic and Community Development
Department of Education
Department of Employment Security
Department of Environment and Conservation
Department of Finance and Administration
Department of General Services
Department of Health
Department of Human Services
Department of Labor
Department of Revenue
Department of State
Department of Tourist Development
Department of the Treasury
District Public Defenders Conference
Executive Department
Fiscal Review Committee of the General Assembly
Local Government Group Insurance Fund
Post-Conviction Defender Commission
Regional Library System
Single Audit—1998
State Funding Board Sewage Treatment Facilities Fund
Teacher Group Insurance Fund
Tennessee Advisory Commission on Intergovernmental Relations
Tennessee Arts Commission
Tennessee Board of Paroles
Tennessee Commission on Children and Youth
Tennessee Consolidated Retirement System
Tennessee Corrections Institute
Tennessee Council of Juvenile and Family Court Judges
Tennessee District Attorneys General Conference
Tennessee Health Facilities Commission
Tennessee Housing Development Agency
Tennessee Human Rights Commission
Tennessee Local Development Authority
Tennessee Regulatory Authority
Tennessee Sports Hall of Fame
Tennessee State Veterans' Homes Board

Tennessee Student Assistance Corporation

Universities, Colleges, and Technical Institutes

Austin Peay State University
Cleveland State Community College
East Tennessee State University
Middle Tennessee State University
Nashville State Technical Institute
Northeast State Technical Community College
Roane State Community College
Roane State Community College Foundation
Shelby State Community College
State University and Community College System of Tennessee-
Central Office
Tennessee State University
Tennessee Technological University
Tennessee Technological University Dormitory Corporation
Tennessee Technology Center at Athens
Tennessee Technology Center at Dickson
Tennessee Technology Center at Elizabethton
Tennessee Technology Center at Hartsville
Tennessee Technology Center at Livingston
Tennessee Technology Center at Morristown
Tennessee Technology Center at Nashville
University of Tennessee Radio Station (WUOT)
University of Memphis
University of Tennessee
Volunteer State Community College
Walters State Community College

Community Services Agencies

Knox County Community Services Agency
Southwest Community Services Agency

Political Subdivisions

Delta Human Resource Agency
Southwest Human Resource Agency

Medicaid/TennCare

Health Care Facilities

Mur-Ci Homes, Inc.

Managed Care Organizations

Heritage National Health Plan
Omnicare Health Plan, Inc.
Phoenix HealthCare of Tennessee, Inc.
Preferred Health Partnership of Tennessee, Inc.

Prudential Health Care Plan, Inc.

State Health Insurance Plans Performance Audits

Board for Licensing Health Care Facilities
Department of Children's Services
Department of Economic and Community Development
Department of Health (including the Bureau of TennCare)
Health Related Boards and Emergency Medical Services Board
Professional Regulatory Boards
Status of Title VI Implementation Plans
Tennessee Alcoholic Beverage Commission
Tennessee Commission on Children and Youth
Tennessee Registry of Election Finance

Special Investigations

Department of Health, TennCare Bureau—Alleged Improper Changes to External Survey Report

Department of Safety, Division of Title and Registration—Improper Alteration of Title Records

Department of Transportation, Region 3 Maintenance Garage (Nashville)—Review of the Improper Disposal of an Automobile Lift and Misuse of Garage Facilities and Equipment

County Audits Released During the Year Ended June 30, 1998

Financial and Compliance Comprehensive Annual Financial Reports For the Year Ended June 30, 1998

Counties

Anderson	Dickson	Jackson
Bedford	Dyer	Jefferson
Benton	Fayette	Johnson
Bledsoe	Fentress	Lake
Blount	Franklin	Lauderdale
Bradley	Gibson	Lawrence
Campbell	Giles	Lewis
Cannon	Grainger	Lincoln
Carroll	Greene	Loudon
Carter	Grundy	Macon
Cheatham	Hancock	Madison
Chester	Hardeman	Marion
Claiborne	Hardin	Marshall
Clay	Hawkins	Maury
Cocke	Haywood	McNairy
Coffee	Henderson	Meigs

Crockett	Henry	Monroe
Cumberland	Hickman	Montgomery
Decatur	Houston	Moore
DeKalb	Humphreys	Morgan
Obion	Rutherford	Unicoi
Overton	Scott	Union
Perry	Sequatchie	Van Buren
Pickett	Sevier	Warren
Polk	Smith	Wayne
Putnam	Stewart	Weakley
Rhea	Sullivan	White
Roane	Tipton	Williamson
Robertson	Trousdale	Wilson

Special School Districts

Paris Special School District

McKenzie Special School District

Watershed District

Cane Creek Watershed District

Special Reports and Limited Reviews

Bradford Special School District (For the period July 1, 1995, through June 30, 1997)

Carroll County Retired Senior Volunteer Program (For the period July 1, 1995, through March 27, 1998)

Coffee County Sheriff Payroll (Limited Review)

Knox County Trustee and County Executive Payroll Records (Limited Review)

Reviews of Fraud and Economic Crime Funds, Judicial District Drug Task Force Funds, and Other Funds Administered by the District Attorneys General for the First Through the Thirty-first Judicial Districts (July 1, 1997, through June 30, 1998)

Sequatchie/Bledsoe County Landfill (For the period July 1, 1996, through June 30, 1998)

Stewart County General Fund (For the period November 11, 1994, through January 31, 1998)

Tennessee Court Information System Project (January 1999)

**Municipal Audits
Released During the Year
Ended June 30, 1999**

Financial and Compliance
Alvin C. York Agricultural Institute

Entity Examined

Alvin C. York Agricultural Institute–Financial Audit
Central Middle School–Rutherford County Schools
City of Dresden
City of Erin Utilities
City of Germantown
City of Pleasant View
City of Rives
City of Sevierville–Fixed Assets
City of Whitwell
Clay Gas Utility District
County-Wide Utility District of Crockett County
Hallsdale-Powell Utility District
Harbor House, Inc.
Highland Heights Middle–Metro Schools
Humboldt High School
Knoxville Police Department
Madisonville Police Department
New Market Utility District
Northwest Tennessee Economic Development Council
Town of Bradford
Town of Bulls Gap
Town of Cumberland Gap
Town of Kimball
Town of Oliver Springs
Town of Palmer
Town of Vanleer
Upper Cumberland Gas Utility District
Warren County School System
William Blount High School–Blount County Schools

NSAA

National State Auditors Association

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDITS
EXTERNAL QUALITY REVIEW
OPINION REPORT
JULY 1, 1997 THROUGH JUNE 30, 1998

2401 Regency Road, Suite 302, Lexington, Kentucky 40503 (606) 276-1147

National State Auditors Association

August 20, 1998

The Honorable William R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37219

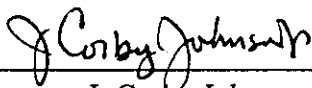
Dear Mr. Snodgrass:

We have reviewed the Tennessee Department of Audit's system of quality control. The purpose of our review was to obtain reasonable assurance of the Department of Audit's compliance with government auditing standards. This review included audit reports issued from July 1, 1997 through June 30, 1998. We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the Department of Audit's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the Department of Audit's organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

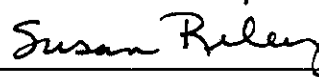
In our opinion, the Department of Audit's system of quality control for audits issued from July 1, 1997 through June 30, 1998 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.

Respectfully submitted,



J. Corby Johnson, Jr. CPA
Team Leader

National State Auditors Association
External Quality Control Review Team



Susan Riley, CPA
Concurring Reviewer

National State Auditors Association
External Quality Control Review Team

Reimond P. Van Daniker, Executive Director for NASACT
2401 Regency Road, Suite 302, Lexington, Kentucky 40503
Telephone (606) 276-1147, Fax (606) 278-0507, email rvnasact@mis.net
and 444 N. Capitol Street, NW, Washington, DC 20001, Telephone (202) 624-5451
Fax (202) 624-5473, email nasactdc@sso.org

Comptroller of the Treasury
Department of Audit
Schedule of Revenues, Expenditures, and Reserves
For the Years Ended June 30, 1999, and June 30, 1998

	Year Ended June 30, 1999				Year Ended June 30, 1998			
	State Audit	County Audit	Municipal Audit	Department Total	State Audit	County Audit	Municipal Audit	Department Total
RESERVES	\$ 24,180.04	\$ -	\$ -	\$ 24,180.04	\$ 4,465.20	\$ 2,166.00	\$ -	\$ 6,631.20
REVENUES								
Appropriation	\$ 6,306,408.10	\$ 4,459,800.00	\$ 1,086,000.00	\$ 11,852,208.10	\$ 5,941,600.00	\$ 3,865,300.00	\$ 946,300.00	\$ 10,753,200.00
Departmental revenues	3,547,076.62	722,652.84	227,068.98	4,496,798.44	2,882,000.42	707,932.22	217,232.53	3,807,165.17
Total revenues	\$ 9,853,484.72	\$ 5,182,452.84	\$ 1,313,068.98	\$ 16,349,006.54	\$ 8,823,600.42	\$ 4,573,232.22	\$ 1,163,532.53	\$ 14,560,365.17
Total reserves and revenues	\$ 9,877,664.76	\$ 5,182,452.84	\$ 1,313,068.98	\$ 16,373,186.58	\$ 8,828,065.62	\$ 4,575,398.22	\$ 1,163,532.53	\$ 14,566,996.37
EXPENDITURES								
Personal services	\$ 6,519,886.89	\$ 3,412,327.64	\$ 739,475.88	\$ 10,671,690.41	\$ 6,012,581.87	\$ 3,155,541.30	\$ 718,663.76	\$ 9,886,786.93
Employee benefits	1,418,909.61	783,844.09	153,426.27	2,356,179.97	1,136,147.22	650,088.84	131,693.55	1,917,929.61
Total payroll	\$ 7,938,796.50	\$ 4,196,171.73	\$ 892,902.15	\$ 13,027,870.38	\$ 7,148,729.09	\$ 3,805,630.14	\$ 850,357.31	\$ 11,804,716.54
Travel	\$ 497,428.80	\$ 321,160.35	\$ 79,233.81	\$ 897,822.96	\$ 445,318.96	\$ 291,456.72	\$ 49,768.34	\$ 786,544.02
Printing, duplicating, and film processing	59,425.60	85,270.65	7,546.52	152,242.77	65,382.96	76,869.53	29,669.96	171,922.45
Communication and shipping costs	18,539.37	29,336.34	10,002.99	57,878.70	19,726.06	24,029.59	7,111.20	50,866.85
Maintenance, repairs, and service	27,649.82	89.00	1,440.32	29,179.14	20,649.90	1,312.50	-	21,962.40
Professional and administrative services	143,896.92	84,332.11	13,356.81	241,585.84	118,544.44	118,250.64	13,322.72	250,117.80
Supplies	39,580.41	16,925.36	13,470.04	69,975.81	22,285.29	17,158.26	6,487.75	45,931.30
Rentals and insurance	306,592.52	83,294.38	49,939.44	439,826.34	306,852.52	82,127.88	50,129.44	439,109.84
Motor vehicle operations	-	-	-	-	6.52	-	-	6.52
Awards and indemnities	652.50	181.25	36.25	870.00	-	-	-	-
Grants and subsidies	17,959.95	6,290.00	2,055.75	26,305.70	9,703.00	1,630.00	1,050.00	12,383.00
Equipment	49,901.98	22,362.02	-	72,264.00	3,988.69	-	-	3,988.69
Total other	\$ 1,161,627.87	\$ 649,241.46	\$ 177,081.93	\$ 1,987,951.26	\$ 1,012,458.34	\$ 612,835.12	\$ 157,539.41	\$ 1,782,832.87
Total current year	\$ 9,100,424.37	\$ 4,845,413.19	\$ 1,069,984.08	\$ 15,015,821.64	\$ 8,161,187.43	\$ 4,418,465.26	\$ 1,007,896.72	\$ 13,587,549.41
Prior-year expenditures	24,180.04	-	-	24,180.04	3,285.00	1,295.50	-	4,580.50
Total expenditures	\$ 9,124,604.41	\$ 4,845,413.19	\$ 1,069,984.08	\$ 15,040,001.68	\$ 8,164,472.43	\$ 4,419,760.76	\$ 1,007,896.72	\$ 13,592,129.91
Excess of reserves and revenues over expenditures	\$ 753,060.35	\$ 337,039.65	\$ 243,084.90	\$ 1,333,184.90	\$ 663,593.19	\$ 155,637.46	\$ 155,635.81	\$ 974,866.46
Reserves carried forward for encumbrances	\$ 47,966.62	\$ -	\$ -	\$ 47,966.62	\$ 24,180.04	\$ -	\$ -	\$ 24,180.04
Amount reverting	705,093.73	337,039.65	243,084.90	1,285,218.28	639,413.15	155,637.46	155,635.81	950,686.42
Total	\$ 753,060.35	\$ 337,039.65	\$ 243,084.90	\$ 1,333,184.90	\$ 663,593.19	\$ 155,637.46	\$ 155,635.81	\$ 974,866.46

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